

STATE OF MONTANA

Comprehensive Annual Financial Report



FOR THE FISCAL YEAR ENDED JUNE 30, 2001

MONTANA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2001

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STATE OF MONTANA
SELECTED STATE OFFICIALS

EXECUTIVE

Judy Martz

Governor

Karl Ohs

Lieutenant Governor

JUDICIAL

Karla Gray

Chief Justice

LEGISLATIVE

Tom Beck

President of the Senate

Dan McGee

Speaker of the House

**STATE OF MONTANA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2001**

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General Purpose Financial Statements The following financial statements present the financial position of all fund types and account groups and the operating results of all fund types.

Hilger cabin photo courtesy of Dan Hilger



By the 1890s, when these pictures were taken near Helena, extensive hunting of deer, elk, bighorn sheep, and other animals had taken its toll. The wildlife abundance of the Old West was slipping into history when Montana's first conservation commission struggled into existence in 1895.



Bighorn sheep photo courtesy of Vicky McLucas



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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying Combined Balance Sheet All Fund Types, Account Groups and Discretely Presented Component Units; Combining Balance Sheet - Component Units - Proprietary Fund Types; Combining Statement of Plan Net Assets - Component Units - Pension Trust Funds; and Combining Balance Sheet - Component Units - All Higher Education Funds of the state of Montana as of June 30, 2001; the related Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds; Combined Statement of Revenues, Expenditures, Other Financing Sources (Uses) and Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis - Unreserved Fund Balance - General and Special Revenue Fund Types; Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances - All Proprietary Fund Types, Similar Trust Funds and Discretely Presented Component Units; Combining Statement of Revenues, Expenses and Changes in Retained Earnings - Component Units - Proprietary Fund Types; Statement of Changes in Net Assets - Investment Trust Fund; Combining Statement of Changes in Plan Net Assets - Component Units - Pension Trust Funds; Statement of Changes in Fund Balance - Component Units - All Higher Education Funds; Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes - Component Units - Higher Education Fund Type; and the related Combined Statement of Cash Flows - All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units and Combining Statement of Cash Flows - Component Units - Proprietary Fund Types for the year then ended. These general purpose financial statements are the responsibility of the state of Montana's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery, which statements reflect total assets of 7.59 percent, liabilities of 9.39 percent, and total revenues/transfers-in and expenses/transfers-out of 28.52 percent and 29.23 percent, respectively, in the Enterprise Fund. This financial activity was audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Montana State Lottery, is based solely upon the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the report of the other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the state of Montana as of June 30, 2001, and the results of its operations, the cash flows of its proprietary and nonexpendable trust fund types and discretely presented component units, the changes in plan net assets of the investment trust fund and its component unit pension trust funds, and the changes in fund balance and current funds revenues, expenditures, transfers and other changes of the component unit higher education funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will issue our report dated January 4, 2002, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. It will be included in the state's Single Audit Report.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The Combining, Individual Fund and Account Group Statements/Schedules-Primary Government listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the state of Montana. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, based upon our audit and the report of the other auditors, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

The Introductory and Statistical Sections listed in the table of contents were not audited by us and, accordingly, we express no opinion on them.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

January 4, 2002

STATE OF MONTANA
COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS
June 30, 2001
(Expressed in Thousands)

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Assets/Other Debits						
Assets:						
Cash/Cash Equivalents (Note 4)	\$ 138,581	\$ 253,106	\$ 32,364	\$ 37,695	\$ 25,077	\$ 22,822
Receivables (Net of Uncollectibles)	112,581	76,710	1,161	1,044	15,531	586
Interfund Loans Receivable (Note 13)	55,803	24,907	-	-	-	3
Due from Other Governments	6,353	122,930	-	-	-	15
Due from Primary Government (Note 13)	-	-	-	-	-	-
Due from Component Units (Note 13)	626	273	-	2	90	1,641
Due from Other Funds (Note 13)	43,436	10,384	-	544	333	7,817
Inventories	3,389	27,612	-	-	6,819	738
Equity in Pooled Investments (Note 4)	-	143,148	-	-	-	-
Long-Term Loans/Notes Receivable	-	105,332	32,906	-	56,530	-
Advances to Other Funds (Note 13)	100	523	1,862	-	392	-
Investments (Note 4)	-	107,715	1,925	-	8,013	16,561
Securities Lending Collateral (Note 4)	-	16,412	-	-	468	5,268
Land	-	-	-	-	800	236
Buildings/Improvements	-	-	-	-	5,849	-
Equipment	-	-	-	-	7,389	152,036
Other Fixed Assets	-	-	-	-	1,154	-
Construction in Progress	-	-	-	-	15	3,228
Accumulated Depreciation	-	-	-	-	(7,357)	(85,399)
Intangible Assets	-	-	-	-	1,735	466
Deferred Charges	-	-	-	-	1,083	-
Other Assets	5,942	1,597	-	4	2,281	329
Other Debits:						
Amount Available - Debt Service Funds	-	-	-	-	-	-
Resources to be Provided in Future Years	-	-	-	-	-	-
Total Assets/Other Debits	\$ 366,811	\$ 890,649	\$ 70,218	\$ 39,289	\$ 126,202	\$ 126,347

The notes to the financial statements are an integral part of this statement.

Fiduciary Fund Types		Account Groups		Component Units				
Trust and Agency		General Fixed Assets	General Long-Term Obligations	Special Revenue	Trust and Agency	Proprietary Fund Types	Pension Trust Funds	Higher Education Funds
\$	1,103,243	\$ -	\$ -	\$ 1	\$ 2,947	\$ 47,692	\$ 183,485	\$ 106,439
	105,946	-	-	-	980	32,651	37,237	55,636
	446	-	-	-	-	-	-	14,762
	-	-	-	-	-	-	-	6,803
	-	-	-	-	455	7	11,791	3,956
	870	-	-	-	-	-	-	-
	21,159	-	-	-	40	1,420	1,069	21,050
	-	-	-	-	-	-	-	3,712
	961,870	-	-	-	69,692	-	4,591,971	3,336
	2,826	-	-	1,500	-	602,829	477	327
	30	-	-	-	-	-	-	196
	183,480	-	-	-	126,751	784,979	729,038	4,229
	102,209	-	-	-	7,229	93,769	229,272	189
	51,260	71,257	-	-	-	-	35	13,700
	-	425,163	-	-	-	-	158	594,947
	-	64,820	-	-	-	2,851	142	118,442
	1	65,501	-	-	-	-	-	95,870
	-	28,571	-	-	-	-	-	15,661
	-	-	-	-	-	(1,494)	(222)	-
	-	-	-	-	-	6,124	4,249	3,907
	-	-	-	-	-	7,468	-	2,047
	18,532	-	-	-	-	852	-	6,818
	-	-	35,430	-	-	-	-	-
	-	-	396,628	-	-	-	-	-
\$	2,551,872	\$ 655,312	\$ 432,058	\$ 1,501	\$ 208,094	\$ 1,579,148	\$ 5,788,702	\$ 1,072,027

(Continued on Next Page)

STATE OF MONTANA
COMBINED BALANCE SHEET - Continued
ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS
June 30, 2001
(Expressed in Thousands)

Liabilities/Equity/Other Credits	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Liabilities:						
Accounts Payable	\$ 126,019	\$ 123,035	\$ 13	\$ 2,420	\$ 4,880	\$ 6,751
Lottery Prizes Payable	-	-	-	-	3,433	-
Interfund Loans Payable (Note 13)	-	79,011	-	-	201	923
Advances from Other Funds (Note 13)	-	2,290	-	-	130	490
Due to Other Governments	84	4,205	-	-	51	-
Due to Primary Government (Note 13)	-	-	-	-	-	-
Due to Component Units (Note 13)	11,814	2,994	-	27	5	38
Due to Other Funds (Note 13)	12,729	29,739	8	83	8,355	2,283
Deferred Revenue	33,537	33,181	-	-	2,584	56
Lease/Installment Purchase Payable (Note 11)	-	-	-	-	-	2,650
Bonds/Notes Payable (Net) (Note 12)	-	-	-	-	74,846	5,718
Property Held in Trust	198	3,041	-	191	145	19
Securities Lending Liability (Note 4)	-	16,412	-	-	468	5,268
Compensated Absences Payable (Note 1)	-	-	-	-	799	4,358
Estimated Insurance Claims (Note 9)	-	-	-	-	3,239	34,793
Early Retirement Benefits Payable (Note 12)	-	-	-	-	-	-
Arbitrage Rebate Tax Payable	-	-	-	-	373	-
Other Liabilities	1	62	-	-	-	-
Total Liabilities	184,382	293,970	21	2,721	99,509	63,347
Equity/Other Credits:						
Investment in General Fixed/Plant Assets	-	-	-	-	-	-
Contributed Capital (Note 17)	-	-	-	-	5,115	19,394
Retained Earnings:						
Reserved for Debt Service	-	-	-	-	-	-
Unreserved	-	-	-	-	21,578	43,606
Fund Balances:						
Reserved for Encumbrances	6,043	39,983	-	4	-	-
Reserved for Inventories	3,389	22,816	-	-	-	-
Reserved for Long-Term Loans	-	105,332	32,906	-	-	-
Reserved for Long-Term Advances (Note 13)	100	523	1,862	-	-	-
Reserved for Debt Service	-	-	6,248	-	-	-
Reserved for Trusts/Endowments (Note 15)	-	6,552	-	-	-	-
Reserved for Construction	-	-	-	-	-	-
Reserved for Pool Participants	-	-	-	-	-	-
Reserved for Employee Pension Benefits	-	-	-	-	-	-
Unreserved, Designated (Note 1)	30,000	275	29,181	-	-	-
Unreserved, Undesignated	142,897	421,198	-	36,564	-	-
Total Equity/Other Credits	182,429	596,679	70,197	36,568	26,693	63,000
Total Liabilities/Equity/Other Credits	\$ 366,811	\$ 890,649	\$ 70,218	\$ 39,289	\$ 126,202	\$ 126,347

The notes to the financial statements are an integral part of this statement.

Fiduciary Fund Types		Account Groups		Component Units											
Trust and Agency		General Fixed Assets	General Long-Term Obligations	Special Revenue	Trust and Agency	Proprietary Fund Types	Pension Trust Fund	Higher Education Funds							
\$	14,997	\$	-	\$	-	\$	50	\$	7,361	\$	1,298	\$	21,069		
	-		-		-		-		-		-		-		
	500		-		-		525		-		-		14,762		
	-		-		-		-		-		-		192		
	-		-		-		-		-		-		6,725		
	-		-		-		4		1,168		168		2,162		
	1,331		-		-		-		-		-		-		
	31,027		-		-		6		848		248		21,926		
	30		-		-		-		16,763		115		10,645		
	-		-		2,340		-		34		570		1,245		
	-		-		368,990		-		714,021		670		217,395		
	205,639		-		-		-		5,384		-		5,233		
	102,209		-		-		7,229		93,769		229,272		189		
	-		-		58,964		-		1,305		308		35,120		
	-		-		-		-		430,600		-		-		
	-		-		339		-		-		-		26		
	-		-		1,425		-		942		-		-		
	1,941		-		-		-		-		-		-		
	357,674		-		432,058		-		7,814		1,272,195		232,649		336,689
	-		655,312		-		-		-		-		628,025		
	-		-		-		-		154,468		-		-		
	-		-		-		-		104,475		-		-		
	-		-		-		-		48,010		-		-		
	2,315		-		-		-		-		-		280		
	-		-		-		-		-		-		-		
	2,825		-		-		1,500		-		-		-		
	-		-		-		-		-		-		-		
	-		-		-		-		-		-		(201)		
	1,225,292		-		-		-		200,280		-		36,440		
	-		-		-		-		-		-		2,457		
	768,240		-		-		-		-		-		-		
	-		-		-		-		-		5,556,053		-		
	-		-		-		-		-		-		-		
	195,526		-		-		1		-		-		68,337		
	2,194,198		655,312		-		1,501		200,280		306,953		5,556,053		735,338
\$	2,551,872	\$	655,312	\$	432,058	\$	1,501	\$	208,094	\$	1,579,148	\$	5,788,702	\$	1,072,027

STATE OF MONTANA
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS

For the Fiscal Year Ended June 30, 2001
(Expressed in Thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Revenues:				
Licenses/Permits	\$ 28,516	\$ 97,922	\$ -	\$ -
Taxes:				
Natural Resource	38,408	76,510	290	3,667
Individual Income	554,523	-	-	-
Corporate Income	102,419	100	-	-
Property	178,879	7,237	-	-
Fuel	-	183,600	-	-
Other (Note 1)	123,515	62,718	-	1,831
Charges for Services/Fines/Forfeits/Settlements	44,251	121,283	333	132
Investment Earnings	21,480	35,519	7,099	327
Securities Lending Income	1,455	1,210	50	2
Sale of Documents/Merchandise/Property	864	4,524	2,550	-
Rentals/Leases/Royalties	73	514	-	-
Contributions/Premiums	-	6,142	-	-
Grants/Contracts/Donations	1,983	15,187	-	-
Federal	35,430	1,171,081	11	-
Federal Indirect Cost Recoveries	89	1,869	-	-
Other Revenues	711	1,892	-	82
Total Revenues	1,132,596	1,787,308	10,333	6,041
Intrafund Revenues	(736)	(2,289)	-	-
Net Revenues	1,131,860	1,785,019	10,333	6,041
Expenditures:				
Current:				
General Government	122,832	95,933	3	7,996
Public Safety/Corrections	127,684	86,723	-	-
Transportation	405	416,432	-	-
Health/Social Services	253,105	737,824	60	-
Education/Cultural	531,536	125,498	-	-
Resource Development/Recreation	74,420	72,909	42	-
Economic Development/Assistance	20,374	111,836	-	1,070
Debt Service:				
Principal Retirement	527	1,474	32,160	-
Interest/Fiscal Charges	169	680	17,067	21
Capital Outlay	1,973	46,155	-	24,247
Securities Lending	1,404	1,174	49	2
Total Expenditures	1,134,429	1,696,638	49,381	33,336
Intrafund Expenditures	(736)	(2,289)	-	-
Net Expenditures	1,133,693	1,694,349	49,381	33,336
Excess of Revenue Over (Under) Expenditures	(1,833)	90,670	(39,048)	(27,295)
Other Financing Sources (Uses):				
Loan Proceeds	-	1,202	-	-
Bond Proceeds	-	13,644	7	13,030
Inception of Lease/Installment Contract	135	128	-	-
General Fixed Asset Sale Proceeds	125	216	-	-
Operating Transfers In (Note 13)	133,757	46,759	43,646	9,571
Transfers from Component Units (Note 13)	-	115	282	-
Operating Transfers Out (Note 13)	(22,412)	(77,961)	(2,732)	(6,065)
Transfers to Component Units (Note 13)	(117,745)	(17,148)	-	-
Total Other Financing Sources (Uses)	(6,140)	(33,045)	41,203	16,536
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses	(7,973)	57,625	2,155	(10,759)
Fund Balances - July 1 - As Previously Reported	186,785	532,252	68,042	47,327
Prior Period Adjustments (Note 3)	2,866	15,454	-	-
Fund Balances - July 1 - As Restated	189,651	547,706	68,042	47,327
Increase (Decrease) in Inventories	(314)	(439)	-	-
Residual Equity Transfers (Note 13)	1,065	(8,213)	-	-
Fund Balances - June 30	\$ 182,429	\$ 596,679	\$ 70,197	\$ 36,568

The notes to the financial statements are an integral part of this statement.

Fiduciary Fund Type	Component Unit	
	Governmental Fund Types	
Expendable Trust	Special Revenue	Expendable Trust
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	231
13,526	-	(2,974)
57	-	488
42	-	-
-	-	-
57,289	-	12,032
684	-	-
3,937	-	-
-	-	-
-	-	-
75,535	-	9,777
-	-	-
75,535	-	9,777
163	-	8,248
-	-	-
301	-	-
-	-	-
56	-	-
414	-	-
68,464	-	-
-	-	-
-	-	-
3,100	-	-
53	-	475
72,551	-	8,723
-	-	-
72,551	-	8,723
2,984	-	1,054
-	-	-
-	-	-
-	-	-
-	-	-
71	-	-
-	-	-
(620)	-	-
-	-	-
(549)	-	-
2,435	-	1,054
199,060	1,501	199,302
(829)	-	(76)
198,231	1,501	199,226
-	-	-
-	-	-
\$ 200,666	\$ 1,501	\$ 200,280

STATE OF MONTANA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, OTHER FINANCING SOURCES (USES) AND
RECONCILIATION OF BUDGET AND ACTUAL (BUDGETARY BASIS) TO GAAP BASIS - UNRESERVED FUND BALANCE
GENERAL AND SPECIAL REVENUE FUND TYPES
For the Fiscal Year Ended June 30, 2001
(Expressed in Thousands)

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
Revenues:						
Licenses/Permits	\$ 26,672	\$ 28,606	\$ 1,934	\$ 97,652	\$ 97,687	\$ 35
Taxes:						
Natural Resource	13,992	35,672	21,680	22,273	71,756	49,483
Individual Income	496,720	556,734	60,014	-	-	-
Corporate Income	65,634	103,670	38,036	8,803	-	(8,803)
Property	223,168	178,879	(44,289)	8,535	7,237	(1,298)
Fuel	-	-	-	185,770	183,263	(2,507)
Other	133,529	124,239	(9,290)	64,681	64,300	(381)
Charges for Services/Fines/Forfeits/Settlements	48,007	48,433	426	94,868	92,713	(2,155)
Investment Earnings	20,753	21,480	727	6,163	8,913	2,750
Sale of Documents/Merchandise/Property	287	857	570	4,994	4,301	(693)
Rentals/Leases/Royalties	91	56	(35)	261	496	235
Contributions/Premiums	-	-	-	9,548	6,151	(3,397)
Grants/Contracts/Donations	1,647	1,939	292	15,855	11,266	(4,589)
Federal	18,495	29,538	11,043	1,110,483	1,099,981	(10,502)
Federal Indirect Cost Recoveries	113	83	(30)	1,541	1,872	331
Other Revenues	596	338	(258)	2,353	1,607	(746)
Total Revenues	1,049,704	1,130,524	80,820	1,633,780	1,651,543	17,763
Expenditures:						
Current:						
General Government	129,862	122,796	7,066	112,707	85,797	26,910
Public Safety/Corrections	132,626	127,077	5,549	137,739	87,367	50,372
Transportation	414	405	9	461,219	413,707	47,512
Health/Social Services	254,917	251,497	3,420	771,263	672,467	98,796
Education/Cultural	532,560	531,462	1,098	144,595	124,754	19,841
Resource Development/Recreation	72,678	72,176	502	120,129	73,870	46,259
Economic Development/Assistance	25,045	9,010	16,035	148,162	115,368	32,794
Debt Service:						
Principal Retirement	433	524	(91)	1,365	1,400	(35)
Interest/Fiscal Charges	169	169	-	653	677	(24)
Capital Outlay	1,596	1,907	(311)	36,127	40,513	(4,386)
Total Expenditures	1,150,300	1,117,023	33,277	1,933,959	1,615,920	318,039
Excess of Revenues Over (Under) Expenditures	(100,596)	13,501	114,097	(300,179)	35,623	335,802
Other Financing Sources (Uses):						
Loan Proceeds	-	-	-	1,098	1,202	104
Bond Proceeds	500	-	(500)	10,299	13,635	3,336
General Fixed Asset Sale Proceeds	247	125	(122)	52	106	54
Operating Transfers In	99,201	147,322	48,121	63,572	49,508	(14,064)
Operating Transfers Out	(22,175)	(18,035)	4,140	(97,092)	(46,986)	50,106
Transfers from Component Units	-	-	-	(115)	115	230
Transfers to Component Units	(117,445)	(117,745)	(300)	(17,148)	(17,148)	-
Total Other Financing Sources (Uses)	(39,672)	11,667	51,339	(39,334)	432	39,766
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (Budgetary Basis)	(140,268)	25,168	165,436	(339,513)	36,055	375,568
Reconciliation of Budgetary/GAAP Reporting:						
1. Adjust Expenditures for Encumbrances	-	(16,396)	(16,396)	-	(3,889)	(3,889)
2. Adjustments for Nonbudgeted Activity	-	(16,796)	(16,796)	-	25,423	25,423
3. Intrafund Elimination - Revenues/Transfers In	-	(736)	(736)	-	(2,289)	(2,289)
4. Intrafund Elimination - Expenditures/Transfers Out	-	736	736	-	2,289	2,289
5. Securities Lending Income	-	1,455	1,455	-	1,210	1,210
6. Securities Lending Costs	-	(1,404)	(1,404)	-	(1,174)	(1,174)
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (GAAP Basis)	(140,268)	(7,973)	132,295	(339,513)	57,625	397,138
Unreserved Fund Balances - July 1	176,000	176,000	-	381,007	381,007	-
Residual Equity Transfers (Note 13)	-	1,065	1,065	-	(8,213)	(8,213)
Prior Period Adjustments (Note 3)	-	3,622	3,622	-	13,951	13,951
Decrease (Increase):						
Encumbrances Reserve	-	1,038	1,038	-	1,345	1,345
Advances to Other Funds Reserve	-	(100)	(100)	-	(408)	(408)
Long-Term Loans Reserve	-	-	-	-	(24,425)	(24,425)
Trusts/Endowments/Fed Loans Reserve (Note 15)	-	-	-	-	70	70
Unreserved Fund Balances - June 30	\$ 35,732	\$ 173,652	\$ 137,920	\$ 41,494	\$ 420,952	\$ 379,458

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
STATEMENT OF CHANGES IN NET ASSETS
INVESTMENT TRUST FUND

For the Fiscal Year Ended June 30, 2001
(Expressed in Thousands)

	STIP Trust
	<hr/>
Additions:	
Contributions	\$ 1,043,949
Net Investment Earnings:	
Investment Earnings	32,696
Securities Lending Income	233
Securities Lending Expense	(226)
	<hr/>
Total Additions	1,076,652
	<hr/>
Deductions:	
Local Government STIP Distributions	790,139
	<hr/>
Net Increase (Decrease)	286,513
	<hr/>
Net Assets Held in Trust for Pool Participants - July 1	481,727
	<hr/>
Net Assets Held in Trust for Pool Participants - June 30	<u>\$ 768,240</u>

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS/FUND BALANCES
ALL PROPRIETARY FUND TYPES, SIMILAR TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS
For the Fiscal Year Ended June 30, 2001
(Expressed in Thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Component Units
	Enterprise	Internal Service	Nonexpendable Trust	Proprietary Fund Types
Operating Revenues:				
Charges for Services	\$ 80,442	\$ 86,955	\$ 6,307	\$ 505
Investment Earnings	1,999	3,227	123,580	77,694
Securities Lending Income	53	197	7,159	6,203
Financing Income	3,683	-	-	39,697
Contributions/Premiums	9,078	93,351	-	74,508
Grants/Contracts/Donations	3	6	23	4
Taxes	12,151	15	18,281	114
Rentals/Leases/Royalties	-	-	46,435	-
Other Operating Revenues	223	463	-	1,465
Total Operating Revenues	107,632	184,214	201,785	200,190
Operating Expenses:				
Personal Services	7,031	32,440	-	11,740
Contractual Services	6,113	17,484	-	10,210
Supplies/Materials	36,969	16,729	7	1,058
Benefits/Claims (Note 3)	9,678	91,570	-	74,476
Depreciation	939	10,041	-	302
Amortization	498	22	-	1,095
Utilities/Rent	547	6,899	-	267
Communications	942	10,290	-	1,104
Travel	144	450	-	274
Repair/Maintenance	334	6,696	-	608
Grants	-	-	16	-
Lottery Prize Payments	15,729	-	-	-
Interest Expense	3,851	656	-	40,715
Securities Lending Expense	52	185	6,973	6,042
Arbitrage Rebate Tax	204	-	-	715
Dividends	-	-	-	4,995
Other Operating Expenses	944	1,668	2	3,069
Total Operating Expenses	83,975	195,130	6,998	156,670
Operating Income (Loss)	23,657	(10,916)	194,787	43,520
Nonoperating Revenues (Expenses):				
Gain (Loss) Sale of Fixed Assets	(22)	(223)	-	(41)
Increase (Decrease) Value of Livestock	478	-	-	-
Federal Assistance	-	-	-	241
Federal Indirect Cost Recoveries	-	2,811	-	-
Total Nonoperating Revenues (Expenses)	456	2,588	-	200
Income (Loss) Before Operating Transfers	24,113	(8,328)	194,787	43,720
Operating Transfers In (Note 13)	75	3,410	1,740	6,765
Operating Transfers Out (Note 13)	(26,009)	(1,016)	(102,233)	(6,765)
Operating Transfers to Component Units (Note 13)	-	-	(2,607)	-
Net Income (Loss)	(1,821)	(5,934)	91,687	43,720
Retained Earnings/Fund Balances - July 1				
As Previously Reported	22,705	52,140	1,138,716	109,778
Prior Period Adjustments (Note 3)	696	(2,600)	(5,111)	(1,013)
Retained Earnings/Fund Balances - July 1	23,401	49,540	1,133,605	108,765
Residual Equity Transfers (Note 13)	(2)	-	-	-
Retained Earnings/Fund Balances - June 30	\$ 21,578	\$ 43,606	\$ 1,225,292	\$ 152,485

The notes to the financial statements are an integral part of this statement.

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STATE OF MONTANA
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS
For the Fiscal Year Ended June 30, 2001
(Expressed in Thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Component Units
	Enterprise	Internal Service	Nonexpendable Trust	Proprietary Fund Types
Cash Flows from Operating Activities:				
Receipts from Sales and Services	\$ 90,662	\$ 181,469	\$ 6,434	\$ 77,101
Receipts from Fines/Settlements	-	-	10,651	-
Collections of Principal and Interest on Loans	-	-	-	98,581
Cash Payments for Loans	-	-	-	(114,763)
Payments to Suppliers for Goods and Services	(47,306)	(60,594)	(7)	(17,238)
Payments to Employees	(6,931)	(31,921)	-	(11,442)
Grant Receipts	-	2,891	-	-
Grant Payments	-	-	(15)	-
Cash Payments for Claims	(9,129)	(91,474)	-	(75,315)
Collections of Payroll Taxes	-	2	-	98
Cash Payments for Prizes	(15,285)	-	-	-
Scholarship/Fellowship Payments	-	-	(3)	-
Other Operating Revenues	84	433	-	1,500
Other Operating Payments	-	-	-	(4,995)
Net Cash Provided by (Used for) Operating Activities	12,095	806	17,060	(46,473)
Cash Flows from Noncapital Financing Activities:				
Payment of Principal and Interest on Bonds and Notes	(13,112)	(2,892)	-	(92,510)
Proceeds from Issuance of Bonds and Notes	16,484	2,140	-	142,940
Payment of Bond Issuance Costs	(337)	-	-	(1,452)
Premium Paid on Refunding Bonds	-	-	-	(88)
Collection of Taxes	12,150	-	17,004	1
Transfers to Other Funds	(26,379)	(1,075)	(107,919)	(6,765)
Transfers to Component Units	-	-	(2,607)	-
Transfers from Other Funds	76	3,410	141	6,765
Cash Payments for Loans	-	(27)	-	-
Proceeds from Interfund Loans	618	(357)	(5,021)	-
Payment of Interfund Loans	(668)	(842)	4,942	-
Contributed Capital Transfers from Other Funds	-	7,150	-	-
Advances from Other Funds	-	490	-	-
Residual Equity Transfers to Other Funds	(2)	-	-	-
Federal Assistance	-	-	-	241
Net Cash Provided by (Used for) Noncapital Financing Activities	(11,170)	7,997	(93,460)	49,132
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Fixed Assets	(923)	(17,032)	-	(1,337)
Proceeds from Sale of Fixed Assets	2	785	-	(1)
Principal and Interest Payments on Bonds and Notes	(1,146)	(2,376)	-	-
Net Cash Used for Capital and Related Financing Activities	(2,067)	(18,623)	-	(1,338)
Cash Flow from Investing Activities:				
Purchase of Investments	(14,528)	(515)	(98,080)	(571,005)
Proceeds from Sales or Maturities of Investments	16,992	11,523	50,789	519,330
Proceeds from Securities Lending Transactions	64	202	7,003	6,427
Interest and Dividends on Investments	854	2,445	82,163	55,299
Payment of Securities Lending Costs	(62)	(192)	(6,992)	(6,267)
Collections of Principal and Interest on Loans	27,798	-	-	-
Cash Payments for Loans	(23,234)	-	-	(126)
Arbitrage Rebate Tax	(44)	-	-	-
Collection of Rents/Leases/Royalties	-	-	35,838	-
Net Cash Provided by (Used for) Investing Activities	7,840	13,463	70,721	3,658
 Net Increase (Decrease) in Cash and Cash Equivalents	 6,698	 3,643	 (5,679)	 4,979
Cash and Cash Equivalents, July 1	18,379	19,179	47,567	42,713
Cash and Cash Equivalents, June 30	\$ 25,077	\$ 22,822	\$ 41,888	\$ 47,692

The notes to the financial statements are an integral part of this statement.

	Proprietary Fund Types		Fiduciary Fund Type		Component Units
	Enterprise	Internal Service	Nonexpendable Trust	Proprietary Fund Types	
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:					
Operating Income (Loss)	\$ 23,657	\$ (10,916)	\$ 194,787	\$	43,520
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities:					
Depreciation	939	10,041	-		341
Amortization	498	22	-		1,680
Taxes	(12,151)	-	(18,282)		-
Interest Expense	3,851	656	-		40,091
Securities Lending Expense	52	185	6,973		6,041
Interest on Investments	(1,999)	(3,227)	(123,579)		(77,694)
Securities Lending Income	(53)	(197)	(7,159)		(6,202)
Financing Income	(3,683)	-	-		-
Federal Indirect Cost Recoveries	-	2,811	-		-
Arbitrage Rebate Tax	204	-	-		715
Rentals/Leases/Royalties	-	-	(35,784)		-
Change in Assets and Liabilities:					
Decr (Incr) in Accounts Receivable	1,064	967	-		(3,179)
Decr (Incr) in Due from Other Governments	-	(10)	-		-
Decr (Incr) in Due from Other Funds	75	134	104		(931)
Decr (Incr) in Due from Primary Government	-	-	-		8
Decr (Incr) in Due from Component Units	(11)	(675)	-		-
Decr (Incr) in Inventories	481	84	-		27
Decr (Incr) in Intangible Assets	7	2	-		-
Decr (Incr) in Long-Term Loans/Notes Receivable	-	-	-		(55,472)
Incr (Decr) in Deferred Charges	-	-	-		211
Decr (Incr) in Other Assets	123	(114)	-		(804)
Incr (Decr) in Accounts Payable	(307)	1,188	-		1,035
Incr (Decr) in Lottery Prizes Payable	469	-	-		-
Incr (Decr) in Due to Other Funds	(1,537)	103	-		(63)
Incr (Decr) in Due to Other Governments	5	-	-		-
Incr (Decr) in Due to Primary Government	-	-	-		309
Incr (Decr) in Due to Component Units	(4)	1	-		-
Incr (Decr) in Deferred Revenue	(102)	(191)	-		1,513
Incr (Decr) in Property Held in Trust	(52)	(22)	-		4,383
Incr (Decr) in Compensated Absences Payable	66	154	-		243
Incr (Decr) in Estimated Insurance Claims	503	96	-		(2,245)
Incr (Decr) in Other Liabilities	-	(286)	-		-
Net Cash Provided by (Used for) Operating Activities	\$ 12,095	\$ 806	\$ 17,060	\$	(46,473)
Schedule of Noncash Transactions:					
Fixed Asset Acquisitions from Capital Leases	\$ -	\$ 1,971	\$ -	\$	-
Asset Acquisitions from Contributed Capital Transfers from Other Funds	188	7,150	-		-
Total Noncash Transactions	\$ 188	\$ 9,121	\$ -	\$	-
Reconciliation for Nonexpendable Trust:					
Cash and Cash Equivalents, June 30			\$ 41,888		
Cash and Cash Equivalents, Expendable Trust, Investment Trust and Agency			1,061,355		
Cash and Cash Equivalents per Combined Balance Sheet, Trust and Agency			\$ 1,103,243		

STATE OF MONTANA
COMBINING BALANCE SHEET
COMPONENT UNITS - PROPRIETARY FUND TYPES
June 30, 2001
(Expressed in Thousands)

	Housing Authority	Health Facilities Authority	State Compensation Insurance (New Fund)	State Compensation Insurance (Old Fund)	Total
Assets:					
Cash/Cash Equivalents	\$ 4,434	\$ 1,766	\$ 31,027	\$ 10,465	\$ 47,692
Receivables (Net)	5,375	148	24,930	2,198	32,651
Due from Primary Government (Note 13)	-	-	7	-	7
Due from Other Funds (Note 13)	-	-	1,419	1	1,420
Long-Term Loans/Notes Receivable	602,575	254	-	-	602,829
Investments (Note 4)	212,836	-	455,760	116,383	784,979
Securities Lending Collateral (Note 4)	-	-	88,689	5,080	93,769
Equipment	82	4	2,765	-	2,851
Accumulated Depreciation	(34)	(3)	(1,457)	-	(1,494)
Intangible Assets	108	-	6,016	-	6,124
Deferred Charges	7,468	-	-	-	7,468
Other Assets	166	-	686	-	852
Total Assets	\$ 833,010	\$ 2,169	\$ 609,842	\$ 134,127	\$ 1,579,148
Liabilities/Fund Equity:					
Liabilities:					
Accounts Payable	\$ 4,875	\$ 2	\$ 2,434	\$ 50	\$ 7,361
Due to Primary Government (Note 13)	56	6	1,102	4	1,168
Due to Other Funds (Note 13)	2	1	3	842	848
Deferred Revenue	-	-	16,157	606	16,763
Lease/Installment Purchase Payable (Note 11)	-	-	34	-	34
Bonds/Notes Payable (Net) (Note 12)	714,021	-	-	-	714,021
Property Held in Trust	3	-	5,381	-	5,384
Securities Lending Liability (Note 4)	-	-	88,689	5,080	93,769
Compensated Absences Payable	60	21	1,161	63	1,305
Estimated Insurance Claims (Note 9)	-	-	325,900	104,700	430,600
Arbitrage Rebate Tax Payable	942	-	-	-	942
Total Liabilities	719,959	30	440,861	111,345	1,272,195
Fund Equity:					
Contributed Capital (Note 17)	-	-	-	154,468	154,468
Retained Earnings:					
Reserved for Debt Service	104,475	-	-	-	104,475
Unreserved	8,576	2,139	168,981	(131,686)	48,010
Total Fund Equity	113,051	2,139	168,981	22,782	306,953
Total Liabilities/Fund Equity	\$ 833,010	\$ 2,169	\$ 609,842	\$ 134,127	\$ 1,579,148

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
COMPONENT UNITS - PROPRIETARY FUND TYPES
For the Fiscal Year Ended June 30, 2001
(Expressed in Thousands)

	Housing Authority	Health Facilities Authority	State Compensation Insurance (New Fund)	State Compensation Insurance (Old Fund)	Total
Operating Revenues:					
Charges for Services	\$ 212	\$ 266	\$ 27	\$ -	\$ 505
Investment Earnings	13,547	138	50,971	13,038	77,694
Securities Lending Income	1	13	5,795	394	6,203
Financing Income	39,697	-	-	-	39,697
Contributions/Premiums	-	-	74,508	-	74,508
Grants/Contracts/Donations	4	-	-	-	4
Payroll Taxes	-	-	1	113	114
Other Operating Revenues	-	-	1,465	-	1,465
Total Operating Revenues	53,461	417	132,767	13,545	200,190
Operating Expenses:					
Personal Services	547	110	11,083	-	11,740
Contractual Services	2,666	34	6,388	1,122	10,210
Supplies/Materials	24	3	1,031	-	1,058
Benefits/Claims (Note 3)	-	-	73,785	691	74,476
Depreciation	8	-	294	-	302
Amortization	39	-	1,056	-	1,095
Utilities/Rent	41	18	208	-	267
Communications	38	4	1,062	-	1,104
Travel	71	18	185	-	274
Repair/Maintenance	68	-	540	-	608
Interest Expense	40,715	-	-	-	40,715
Securities Lending Expense	1	13	5,643	385	6,042
Arbitrage Rebate Tax	715	-	-	-	715
Dividends	-	-	4,995	-	4,995
Other Operating Expenses	207	18	2,484	360	3,069
Total Operating Expenses	45,140	218	108,754	2,558	156,670
Operating Income (Loss)	8,321	199	24,013	10,987	43,520
Nonoperating Revenues (Expenses):					
Gain (Loss) Sale of Fixed Assets	-	-	(41)	-	(41)
Federal Assistance	241	-	-	-	241
Total Nonoperating Revenues (Expenses)	241	-	(41)	-	200
Income (Loss) Before Operating Transfers	8,562	199	23,972	10,987	43,720
Operating Transfers In (Note 13)	-	-	6,765	-	6,765
Operating Transfers Out (Note 13)	-	-	-	(6,765)	(6,765)
Net Income (Loss)	8,562	199	30,737	4,222	43,720
Retained Earnings - July 1 -					
As Previously Reported	104,489	1,940	139,257	(135,908)	109,778
Prior Period Adjustments (Note 3)	-	-	(1,013)	-	(1,013)
Retained Earnings - July 1 -					
As Restated	104,489	1,940	138,244	(135,908)	108,765
Retained Earnings - June 30	\$ 113,051	\$ 2,139	\$ 168,981	\$ (131,686)	\$ 152,485

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
COMPONENT UNITS - PROPRIETARY FUND TYPES
For the Fiscal Year Ended June 30, 2001
(Expressed in Thousands)

	Housing Authority	Health Facilities Authority	State Compensation Insurance (New Fund)	State Compensation Insurance (Old Fund)	Total
Cash Flows from Operating Activities:					
Receipts from Sales and Services	\$ 149	\$ 259	\$ 76,695	\$ (2)	\$ 77,101
Collections of Principal and Interest on Loans	98,581	-	-	-	98,581
Cash Payments for Loans	(114,763)	-	-	-	(114,763)
Payments to Suppliers for Goods and Services	(3,275)	(95)	(12,726)	(1,142)	(17,238)
Payments to Employees	(533)	(113)	(10,796)	-	(11,442)
Cash Payments for Claims	-	-	(61,422)	(13,893)	(75,315)
Collection of Payroll Taxes	-	-	-	98	98
Other Operating Revenues	9	-	1,491	-	1,500
Other Operating Payments	-	-	(4,995)	-	(4,995)
Net Cash Provided by (Used for) Operating Activities	(19,832)	51	(11,753)	(14,939)	(46,473)
Cash Flows from Noncapital Financing Activities:					
Payment of Principal and Interest on Bonds and Notes	(92,510)	-	-	-	(92,510)
Proceeds from Issuance of Bonds and Notes	142,940	-	-	-	142,940
Payment of Bond Issuance Costs	(1,452)	-	-	-	(1,452)
Premium Paid on Refunding Bonds	(88)	-	-	-	(88)
Collection of Taxes	-	-	1	-	1
Transfers to Other Funds	-	-	-	(6,765)	(6,765)
Transfers from Other Funds	-	-	6,765	-	6,765
Federal Assistance	241	-	-	-	241
Net Cash Provided by (Used for) Noncapital Financing Activities	49,131	-	6,766	(6,765)	49,132
Cash Flows from Capital and Related Financing Activities:					
Acquisition of Fixed Assets	-	-	(1,337)	-	(1,337)
Proceeds from Sale of Fixed Assets	-	-	(1)	-	(1)
Net Cash Used for Capital and Related Financing Activities	-	-	(1,338)	-	(1,338)
Cash Flows from Investing Activities:					
Purchase of Investments	(402,994)	-	(138,856)	(29,155)	(571,005)
Proceeds from Sales or Maturities of Investments	361,965	915	112,748	43,702	519,330
Proceeds from Securities Lending Transactions	-	18	5,998	411	6,427
Interest and Dividends on Investments	13,142	147	33,377	8,633	55,299
Payment of Securities Lending Costs	-	(18)	(5,847)	(402)	(6,267)
Cash Payments for Loans	-	(126)	-	-	(126)
Net Cash Provided by (Used for) Investing Activities	(27,887)	936	7,420	23,189	3,658
Net Increase (Decrease) in Cash and Cash Equivalents	1,412	987	1,095	1,485	4,979
Cash and Cash Equivalents, July 1	3,022	779	29,932	8,980	42,713
Cash and Cash Equivalents, June 30	\$ 4,434	\$ 1,766	\$ 31,027	\$ 10,465	\$ 47,692

The notes to the financial statements are an integral part of this statement.

	Housing Authority	Health Facilities Authority	State Compensation Insurance (New Fund)	State Compensation Insurance (Old Fund)	Total
Reconciliation of Operating Income to Net					
Cash Provided by Operating Activities:					
Operating Income (Loss)	\$ 8,321	\$ 199	\$ 24,013	\$ 10,987	\$ 43,520
Adjustments to Reconcile Operating Income					
to Net Cash Provided by (Used for)					
Operating Activities:					
Depreciation	47	-	294	-	341
Amortization	624	-	1,056	-	1,680
Interest Expense	40,091	-	-	-	40,091
Securities Lending Expense	-	13	5,643	385	6,041
Interest on Investments	(13,547)	(138)	(50,971)	(13,038)	(77,694)
Securities Lending Income	-	(13)	(5,795)	(394)	(6,202)
Arbitrage Rebate Tax	715	-	-	-	715
Change in Assets and Liabilities:					
Decr (Incr) in Accounts Receivable	-	(52)	(3,137)	10	(3,179)
Decr (Incr) in Due from Other Funds	-	-	(930)	(1)	(931)
Decr (Incr) in Due from Primary Government	-	-	(3)	11	8
Decr (Incr) in inventories	-	-	27	-	27
Decr (Incr) in Long-Term Loans/Notes Receivable	(55,517)	45	-	-	(55,472)
Incr (Decr) in Deferred Charges	211	-	-	-	211
Decr (Incr) in Other Assets	(670)	-	(150)	16	(804)
Incr (Decr) in Accounts Payable	(119)	1	1,115	38	1,035
Incr (Decr) in Due to Other Funds	-	(5)	(400)	342	(63)
Incr (Decr) in Due to Primary Government	-	4	304	1	309
Incr (Decr) in Deferred Revenue	-	-	1,564	(51)	1,513
Incr (Decr) in Property Held in Trust	-	-	4,383	-	4,383
Incr (Decr) in Compensated Absences Payable	12	(3)	234	-	243
Incr (Decr) in Estimated insurance Claims	-	-	11,000	(13,245)	(2,245)
Net Cash Provided by (Used for)					
Operating Activities	\$ (19,832)	\$ 51	\$ (11,753)	\$ (14,939)	\$ (46,473)

STATE OF MONTANA
COMBINING STATEMENT OF PLAN NET ASSETS
COMPONENT UNITS - PENSION TRUST FUNDS
June 30, 2001
(Expressed in Thousands)

	Public Employees Retirement Division			
	TRS	PERS	Municipal Police	Fire-Fighters Unified
Assets:				
Cash/Cash Equivalents (Note 4)	\$ 63,933	\$ 101,190	\$ 2,715	\$ 3,375
Receivables (Net):				
Employer Contributions	7,442	2,273	199	160
Employee Contributions	7,296	2,387	126	113
Interest	6,956	8,392	356	337
Other Receivables	3	26	-	1
Due from Primary Government (Note 13)	128	59	6,148	5,369
Due from Other Funds (Note 13)	382	680	-	-
Long-Term Notes/Loans Receivable	-	446	-	-
Investments at Fair Value:				
Equity in Pooled Investments (Note 4)	1,836,566	2,284,598	109,898	104,625
Other Investments (Note 4)	313,422	379,921	8,086	7,260
Securities Lending Collateral (Note 4)	91,502	113,424	5,639	5,353
Land	35	-	-	-
Buildings/Improvements	158	-	-	-
Equipment	137	5	-	-
Accumulated Depreciation	(220)	(2)	-	-
Intangible Assets	4,249	-	-	-
Total Assets	\$ 2,331,989	\$ 2,893,399	\$ 133,167	\$ 126,593
Liabilities:				
Accounts Payable	\$ 560	\$ 722	\$ -	\$ -
Due to Primary Government (Note 13)	60	108	-	-
Due to Other Funds (Note 13)	1	6	55	44
Deferred Revenue	-	90	4	9
Lease/Installment Purchase Payable (Note 11)	570	-	-	-
Bonds/Notes Payable (Net) (Note 12)	-	670	-	-
Securities Lending Liability (Note 4)	91,502	113,424	5,639	5,353
Compensated Absences Payable (Note 1)	89	219	-	-
Total Liabilities	92,782	115,239	5,698	5,406
Fund Balances Reserved for				
Defined Benefit Plans	2,239,207	2,777,338	127,469	121,187
Fund Balances Reserved for				
Defined Contribution Plan (Note 6)	-	(585)	-	-
Fund Balances Reserved for				
Education Fund (Note 6)	-	1,407	-	-
Total Fund Balances Reserved for				
Employee Pension Benefits	\$ 2,239,207	\$ 2,778,160	\$ 127,469	\$ 121,187

The notes to the financial statements are an integral part of this statement.

Sheriffs	Highway Patrol	Judges	Game Wardens	Volunteer Fire-Fighters	Total
\$ 5,897	\$ 2,640	\$ 1,201	\$ 1,338	\$ 1,196	\$ 183,485
164	-	-	-	-	10,238
155	-	-	-	-	10,077
352	215	117	93	64	16,882
-	-	-	10	-	40
-	87	-	-	-	11,791
1	1	-	5	-	1,069
31	-	-	-	-	477
109,103	66,386	36,155	29,452	15,188	4,591,971
8,227	5,324	3,185	2,315	1,298	729,038
5,587	3,411	1,855	1,492	1,009	229,272
-	-	-	-	-	35
-	-	-	-	-	158
-	-	-	-	-	142
-	-	-	-	-	(222)
-	-	-	-	-	4,249
\$ 129,517	\$ 78,064	\$ 42,513	\$ 34,705	\$ 18,755	\$ 5,788,702
\$ 7	\$ -	\$ -	\$ 9	\$ -	\$ 1,298
-	-	-	-	-	168
43	22	5	30	42	248
3	6	-	3	-	115
-	-	-	-	-	570
-	-	-	-	-	670
5,587	3,411	1,855	1,492	1,009	229,272
-	-	-	-	-	308
5,640	3,439	1,860	1,534	1,051	232,649
123,877	74,625	40,653	33,171	17,704	5,555,231
-	-	-	-	-	(585)
-	-	-	-	-	1,407
\$ 123,877	\$ 74,625	\$ 40,653	\$ 33,171	\$ 17,704	\$ 5,556,053

STATE OF MONTANA
COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
COMPONENT UNITS - PENSION TRUST FUNDS
For the Fiscal Year Ended June 30, 2001
(Expressed in Thousands)

	TRS	PERS	Public Employees Retirement Division	
			Municipal Police	Fire-Fighters Unified
Additions:				
Contributions/Premiums:				
Employer	\$ 50,990	\$ 53,976	\$ 3,015	\$ 2,373
Employee	48,278	57,098	1,913	1,742
Other Contributions	611	632	6,149	5,368
Net Investment Earnings:				
Investment Earnings	(117,023)	(146,023)	(6,096)	(5,938)
Administrative Investment Expense	(2,356)	(2,899)	(88)	(77)
Securities Lending Income	8,216	10,198	494	464
Securities Lending Expense	(7,887)	(9,789)	(475)	(447)
Contracts/Grants/Donations	-	1	-	-
Other Additions	6	26	-	-
Total Additions	(19,165)	(36,780)	4,912	3,485
Deductions:				
Benefits	118,843	101,546	9,125	8,018
Refunds	5,370	12,063	430	44
Administrative Expenses:				
Personal Services	639	1,063	-	-
Contractual Services	200	1,154	-	-
Supplies/Materials	31	76	-	-
Depreciation	17	(5)	-	-
Amortization	457	-	-	-
Utilities/Rent	32	78	-	-
Communications	30	84	-	-
Travel	22	39	-	-
Repair/Maintenance	43	24	-	-
Interest Expense	227	25	-	-
Loss Sale of Fixed Assets	-	13	-	-
Other Operating Expenses	18	-	55	43
Local Assistance	-	-	-	-
Total Deductions	125,929	116,160	9,610	8,105
Net Increase (Decrease)	(145,094)	(152,940)	(4,698)	(4,620)
Fund Balances Reserved for				
Employee Pension Benefits - July 1 -				
As Previously Reported	2,384,301	2,931,096	132,167	125,807
Prior Period Adjustments	-	4	-	-
Fund Balances Reserved for				
Employee Pension Benefits - July 1 -				
As Restated	2,384,301	2,931,100	132,167	125,807
Fund Balances Reserved for				
Defined Benefit Plans - June 30	2,239,207	2,777,338	127,469	121,187
Fund Balances Reserved for				
Defined Contribution Plan - June 30	-	(585)	-	-
Fund Balances Reserved for				
Education Fund - June 30	-	1,407	-	-
Total Fund Balances Reserved for				
Employee Pension Benefits - June 30	\$ 2,239,207	\$ 2,778,160	\$ 127,469	\$ 121,187

The notes to the financial statements are an integral part of this statement.

Sheriffs	Highway Patrol	Judges	Game Wardens	Volunteer Fire-Fighters	Total
\$ 2,227	\$ 1,925	\$ 943	\$ 1,366	\$ -	\$ 116,815
2,223	711	256	1,303	-	113,524
39	1,057	-	3	1,003	14,862
(6,310)	(3,782)	(2,133)	(1,580)	(205)	(289,090)
(88)	(58)	(35)	(23)	(58)	(5,682)
490	305	167	130	86	20,550
(472)	(293)	(161)	(125)	(82)	(19,731)
-	-	-	-	-	1
-	-	-	-	-	32
(1,891)	(135)	(963)	1,074	744	(48,719)
3,293	4,624	1,430	1,234	884	248,997
378	86	-	217	-	18,588
-	-	-	-	-	1,702
-	-	-	-	-	1,354
-	-	-	-	-	107
-	-	-	-	-	12
-	-	-	-	-	457
-	-	-	-	-	110
-	-	-	-	-	114
-	-	-	-	-	61
-	-	-	-	-	67
-	-	-	-	-	252
-	-	-	-	-	13
43	22	5	30	42	258
-	-	-	-	12	12
3,714	4,732	1,435	1,481	938	272,104
(5,605)	(4,867)	(2,398)	(407)	(194)	(320,823)
129,482	79,492	43,051	33,578	17,898	5,876,872
-	-	-	-	-	4
129,482	79,492	43,051	33,578	17,898	5,876,876
123,877	74,625	40,653	33,171	17,704	5,555,231
-	-	-	-	-	(585)
-	-	-	-	-	1,407
\$ 123,877	\$ 74,625	\$ 40,653	\$ 33,171	\$ 17,704	\$ 5,556,053

STATE OF MONTANA
COMBINING BALANCE SHEET
COMPONENT UNITS - ALL HIGHER EDUCATION FUNDS
June 30, 2001
(Expressed in Thousands)

	Current Funds			
	Unrestricted			
	General Operating	Designated	Auxiliary	Restricted
Assets:				
Cash/Cash Equivalents	\$ 15,665	\$ 23,669	\$ 17,130	\$ 6,620
Receivables (Net)	3,688	770	1,158	19,924
Interfund Loans Receivable (Note 13)	200	14,562	-	-
Due from Other Governments	18	-	-	6,703
Due from Primary Government (Note 13)	433	663	53	1,874
Due from Other Funds (Note 13)	999	2,681	144	652
Inventories	79	1,446	2,187	-
Equity in Pooled Investments (Note 4)	-	-	-	-
Long-Term Loans/Notes Receivable	78	-	-	-
Advances to Other Funds	-	75	5	-
Investments (Note 4)	-	243	-	11
Securities Lending Collateral (Note 4)	-	-	-	-
Land	-	-	-	-
Buildings/Improvements	-	-	-	-
Equipment	-	-	-	-
Other Fixed Assets	-	-	-	-
Construction in Progress	-	-	-	-
Intangible Assets	-	-	-	-
Deferred Charges	-	-	-	-
Other Assets	3,416	2,072	276	464
Total Assets	\$ 24,576	\$ 46,181	\$ 20,953	\$ 36,248
Liabilities/Fund Balances:				
Liabilities:				
Accounts Payable	\$ 3,970	\$ 1,732	\$ 1,505	\$ 1,237
Interfund Loans Payable (Note 13)	500	-	-	14,262
Advances from Other Funds	5	67	67	5
Due to Other Governments	5,524	-	-	145
Due to Primary Government (Note 13)	29	902	13	14
Due to Other Funds (Note 13)	7,674	2,724	1,541	7,242
Deferred Revenue	7,222	1,707	862	-
Lease/Installment Purchase Payable (Note 11)	-	-	-	-
Bonds/Notes Payable (Note 12)	78	-	-	-
Property Held in Trust	98	81	732	9
Securities Lending Liability (Note 4)	-	-	-	-
Early Retirement Benefits Payable (Note 12)	25	-	1	-
Compensated Absences Payable (Note 1)	26,130	6,126	2,589	275
Total Liabilities	51,255	13,339	7,310	23,189
Fund Balances:				
Net Investment in Plant	-	-	-	-
Reserved for:				
Encumbrances	263	15	-	2
Debt Service	-	-	-	-
Student Loans/Endowments	-	-	-	-
Construction	-	-	-	-
Unreserved	(26,942)	32,827	13,643	13,057
Total Fund Balances	(26,679)	32,842	13,643	13,059
Total Liabilities/Fund Balances	\$ 24,576	\$ 46,181	\$ 20,953	\$ 36,248

The notes to the financial statements are an integral part of this statement.

Fiduciary Funds				Plant Funds					
Student Loans	Endowments	Agency	Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant	Total		
\$ 3,689	\$ 1,801	\$ 1,237	\$ 11,383	\$ 19,967	\$ 5,278	\$ -	\$ 106,439		
29,416	13	435	105	48	79	-	55,636		
-	-	-	-	-	-	-	14,762		
82	-	-	-	-	-	-	6,803		
1	-	773	146	13	-	-	3,956		
104	-	15,133	371	851	115	-	21,050		
-	-	-	-	-	-	-	3,712		
305	3,031	-	-	-	-	-	3,336		
249	-	-	-	-	-	-	327		
-	-	-	90	26	-	-	196		
-	1,278	-	-	2,697	-	-	4,229		
-	189	-	-	-	-	-	189		
-	-	-	-	-	-	13,700	13,700		
-	-	-	-	-	-	594,947	594,947		
-	-	-	-	-	-	118,442	118,442		
-	-	-	-	-	-	95,870	95,870		
-	-	-	7,198	1,831	-	6,632	15,661		
-	-	-	-	-	-	3,907	3,907		
-	-	-	-	-	2,047	-	2,047		
-	310	257	19	4	-	-	6,818		
\$ 33,846	\$ 6,622	\$ 17,835	\$ 19,312	\$ 25,437	\$ 7,519	\$ 833,498	1,072,027		

\$ 13	\$ -	\$ 9,448	\$ 1,165	\$ 452	\$ 1,547	\$ -	\$ 21,069
-	-	-	-	-	-	-	14,762
-	-	-	-	-	-	48	192
-	-	1,056	-	-	-	-	6,725
3	-	1,083	115	3	-	-	2,162
58	33	1,945	447	226	36	-	21,926
-	-	-	316	88	450	-	10,645
-	-	-	-	-	-	1,245	1,245
-	-	-	10,320	-	2,064	204,933	217,395
10	-	4,303	-	-	-	-	5,233
-	189	-	-	-	-	-	189
-	-	-	-	-	-	-	26
-	-	-	-	-	-	-	35,120
84	222	17,835	12,363	769	4,097	206,226	336,689
-	-	-	-	-	-	628,025	628,025
-	-	-	-	-	-	-	280
-	-	-	-	-	(201)	-	(201)
31,685	4,748	-	-	-	7	-	36,440
-	-	-	1,129	1,328	-	-	2,457
2,077	1,652	-	5,820	23,340	3,616	(753)	68,337
33,762	6,400	-	6,949	24,668	3,422	627,272	735,338
\$ 33,846	\$ 6,622	\$ 17,835	\$ 19,312	\$ 25,437	\$ 7,519	\$ 833,498	\$ 1,072,027

STATE OF MONTANA
STATEMENT OF CHANGES IN FUND BALANCE
COMPONENT UNITS - ALL HIGHER EDUCATION FUNDS

For the Fiscal Year Ended June 30, 2001
(Expressed in Thousands)

	Current Funds			
	Unrestricted			
	General Operating	Designated	Auxiliary	Restricted
Revenues/Other Additions:				
Tuition/Fees	\$ 110,506	\$ 17,979	\$ 10,987	\$ 55
Federal Grants/Contracts	4,281	136	27	89,061
State Grants/Contracts	-	1,304	33	14,505
Local Grants/Contracts	-	5	-	1,115
Private Gifts/Grants/Donations	-	3,355	233	41,632
Sales/Services-Educational Activities	1,080	3,740	87	147
Sales/Services-Designated/Auxiliary Enterprises	72	22,350	57,850	302
Indirect Costs Recovered	44	13,703	-	58
Investment Earnings	2,021	1,173	1,597	458
Securities Lending Income	-	7	-	-
Acquisition of Long-Lived Assets	-	-	-	-
Retirement of Indebtedness	-	-	-	-
Other Revenues/Additions	934	6,780	2,028	36,674
Total Revenues/Other Additions	118,938	70,532	72,842	184,007
Intrafund Revenues/Other Additions	-	(15)	-	-
Net Revenues/Other Additions	118,938	70,517	72,842	184,007
Expenditures/Other Deductions:				
Instruction	121,777	8,027	-	10,353
Research	15,913	12,483	-	72,195
Public Service	8,148	7,229	-	19,454
Academic Support	21,602	9,111	-	3,608
Student Services	18,904	14,861	-	3,099
Institutional Support	19,685	6,753	-	2,168
Scholarships/Fellowships	9,743	2,023	38	63,120
Auxiliary Enterprises	1	51	60,015	141
Operation/Maintenance of Plant	27,168	238	-	48
Expended for Plant	-	4	-	48
Debt Services	184	205	63	25
Capital Outlay	5,172	2,743	145	6,251
Securities Lending	-	6	-	-
Disposal of Long-Lived Assets	-	-	-	-
Debt Incurred	-	-	-	-
Other Expenditures/Deductions	35	28	-	383
Total Expenditures/Other Deductions	248,332	63,762	60,261	180,893
Intrafund Expenditures/Other Deductions	-	(15)	-	-
Net Expenditures/Other Deductions	248,332	63,747	60,261	180,893
Transfers In (Out)/Other Additions (Deductions):				
Transfers from State General Fund	113,345	2,735	-	1,665
Millage Transfers	15,280	-	-	-
Mandatory Transfers	(33)	(942)	(9,684)	(5)
Nonmandatory Transfers	(1,568)	(1,494)	(2,036)	(246)
Transfers from Primary Government	990	269	271	15
Transfers to Primary Government	-	-	-	-
Total Transfers In (Out) (Note 13)	128,014	568	(11,449)	1,429
Move Equity to Investment in Plant	-	-	-	-
Total Transfers In (Out)/Other Additions (Deductions)	128,014	568	(11,449)	1,429
Net Increase (Decrease) in Fund Balances	(1,380)	7,338	1,132	4,543
Fund Balances - July 1 - As Previously Reported	(23,918)	26,826	13,161	12,271
Prior Period Adjustments (Note 3)	(1,381)	(1,326)	(650)	(3,751)
Fund Balances - July 1 - As Restated	(25,299)	25,500	12,511	8,520
Residual Equity Transfers (Note 13)	-	4	-	(4)
Fund Balances - June 30	\$ (26,679)	\$ 32,842	\$ 13,643	\$ 13,059

The notes to the financial statements are an integral part of this statement.

Fiduciary Funds			Plant Funds		
Student Loans	Endowments	Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant
\$ -	\$ -	\$ 5,035	\$ 757	\$ 5,347	\$ -
507	-	-	-	11	-
119	-	-	-	-	-
-	-	-	-	-	-
14	1	1,077	22	-	-
-	-	28	-	-	-
18	-	163	169	1,185	-
-	-	-	-	-	-
454	(293)	1,045	1,257	339	-
-	14	-	-	-	-
-	-	-	-	-	40,209
-	-	-	-	-	8,547
353	-	2,247	4,069	282	-
1,465	(278)	9,595	6,274	7,164	48,756
-	-	-	-	-	-
1,465	(278)	9,595	6,274	7,164	48,756
-	-	-	-	-	-
-	-	-	1	-	-
-	-	-	-	-	-
31	-	-	-	-	-
143	-	2	1	-	-
-	-	-	-	-	-
30	1	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	6,583	6,187	22	150
-	-	398	60	19,066	-
-	-	(61)	(122)	-	-
-	14	-	-	-	-
-	-	-	-	-	13,436
-	-	-	-	-	3,039
379	1	-	-	-	-
583	16	6,922	6,127	19,088	16,625
-	-	-	-	-	-
583	16	6,922	6,127	19,088	16,625
-	-	-	-	-	-
-	-	-	-	-	-
-	-	(2,894)	197	13,410	-
(8)	69	121	7,638	(2,506)	-
-	-	1,175	566	1,189	-
-	-	(294)	-	(103)	-
(8)	69	(1,892)	8,401	11,990	-
-	-	(32,316)	(2,869)	226	8,239
(8)	69	(34,208)	5,532	12,216	8,239
874	(225)	(31,535)	5,679	292	40,370
32,982	6,635	16,266	18,968	4,060	554,399
(94)	(10)	22,218	23	(932)	32,503
32,888	6,625	38,484	18,991	3,128	586,902
-	-	-	(2)	2	-
\$ 33,762	\$ 6,400	\$ 6,949	\$ 24,668	\$ 3,422	\$ 627,272

STATE OF MONTANA
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, TRANSFERS AND OTHER CHANGES
COMPONENT UNITS - HIGHER EDUCATION FUND TYPE
For the Fiscal Year Ended June 30, 2001
(Expressed in Thousands)

	Current Funds			
	Unrestricted			
	General Operating	Designated	Auxiliary	Restricted
Revenues:				
Tuition/Fees	\$ 110,506	\$ 17,979	\$ 10,987	\$ 55
Federal Grants/Contracts	4,281	136	27	74,432
State Grants/Contracts	-	1,304	33	13,546
Local Grants/Contracts	-	5	-	928
Private Gifts/Grants/Donations	-	3,355	233	39,264
Sales/Services-Educational Activities	1,080	3,740	87	147
Sales/Services-Designated/Auxiliary Enterprises	72	22,350	57,850	302
Indirect Costs Recovered	44	13,703	-	58
Investment Earnings	2,021	1,173	1,597	458
Securities Lending Income	-	7	-	-
Other Revenues	934	6,780	2,028	35,835
Total Revenues	118,938	70,532	72,842	165,025
Intrafund Revenues	-	(15)	-	-
Net Revenues	118,938	70,517	72,842	165,025
Expenditures:				
Educational and General:				
Instruction	121,777	8,027	-	9,905
Research	15,913	12,483	-	58,169
Public Service	8,148	7,229	-	18,923
Academic Support	21,602	9,111	-	3,607
Student Services	18,904	14,861	-	2,979
Institutional Support	19,685	6,753	-	1,938
Scholarships/Fellowships	9,743	2,023	38	63,108
Operation/Maintenance of Plant	27,168	238	-	48
Other Expenditures	35	28	-	383
Total Educational and General Expenditures	242,975	60,753	38	159,060
Intrafund Expenditures	-	(15)	-	-
Net Educational and General Expenditures	242,975	60,738	38	159,060
Auxiliary Enterprises	1	51	60,015	141
Debt Services	184	205	63	25
Capital Outlay	5,172	2,747	145	6,299
Securities Lending	-	6	-	-
Total Expenditures	248,332	63,747	60,261	165,525
Transfers In (Out):				
Transfers from State General Fund	113,345	2,735	-	500
Millage Transfers	15,280	-	-	-
Mandatory Transfers	(33)	(942)	(9,684)	(5)
Nonmandatory Transfers	(1,568)	(1,494)	(2,036)	(246)
Transfers from Primary Government	990	269	271	15
Total Transfers In (Out) (Note 13)	128,014	568	(11,449)	264
Other Additions(Deductions):				
Excess of Restricted Receipts Over Transfers to Revenue	-	-	-	4,779
Total Other Additions (Deductions)	-	-	-	4,779
Net Increase (Decrease) in Fund Balances	\$ (1,380)	\$ 7,338	\$ 1,132	\$ 4,543

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements of the Higher Education Funds have been prepared in conformity with GAAP for colleges and universities as prescribed by the American Institute of Certified Public Accountants.

A. Reporting Entity - For financial reporting purposes, the State of Montana has included all funds and account groups which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discrete Component Units

These component units are entities which are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The component units' columns of the combined financial statements include the financial data of these entities:

Housing Authority (Proprietary Fund Type/State Special Revenue Fund Type) - This Authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe and sanitary housing to persons and families of lower income. The Board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$975 million. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The Authority is audited annually by the Legislative Auditor. Its report is issued under separate cover and available at 836 Front Street, PO Box 200528, Helena, MT 59620-0528.

Health Facilities Authority (Proprietary Fund Type) - This Authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. Its purpose is to contain future health care costs by offering debt financing or refinancing at reduced rates to Montana non-profit private and public health care institutions for purchases of capital equipment and buildings. The Board issues revenue bonds to fulfill its purpose. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. Individual audit reports are issued by the Legislative Auditor every two years. Its report is issued under separate cover and available at 2401 Colonial Drive, 3rd Floor, PO Box 200506, Helena, MT 59620-0506.

State Compensation Insurance Fund (New and Old) (Proprietary Fund Type) - The Fund is a quasi-governmental corporation governed by a board appointed by the Governor. The Fund provides workers compensation insurance. The Fund consists of two separate entities, the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990. In 1999, the 56th Legislature determined that the Old Fund was adequately funded and discontinued the Old Fund Liability Tax. Administrative operations and budgets are reviewed by the Governor and the legislature. The Fund is audited annually by the Legislative Auditor. Its report is issued under separate cover and available at 5 South Last Chance Gulch, Helena, MT 59601.

Teachers Retirement System (Pension Trust Fund) - This retirement system is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers Retirement System are paid from investment earnings of the Fund. The System is funded from employer and employee contributions and investment earnings. The system is audited annually by the Legislative Auditor. Its report is issued under separate cover and is available at 1500 Sixth Avenue, PO Box 200139, Helena, MT 59620-0139.

Public Employees Retirement Board (Pension Trust Funds/Expendable Trust Funds) - The Board, appointed by the Governor, administers eight separate retirement systems for the purpose of providing retirement, disability, death and lump sum payments to each system member. These legally separate entities include the Public Employees, the Municipal Police Officers, the Game Wardens and Peace Officers, the Sheriffs, the Judges, the Highway Patrol

Officers and the Firefighters Unified Retirement Systems, as well as the Volunteer Firefighters Compensation Act. As of July 1, 1999, the Board also administers the State of Montana Deferred Compensation Program.

The Public Employees Retirement System (PERS) is funded from employer and employee contributions and investment earnings. The PERS also accounts for the administrative costs, paid from investment earnings, of the system. The Municipal Police Officers Retirement System is funded from member, state and city contributions. The Game Wardens and Peace Officers Retirement System is funded by employer and employee contributions. The Sheriffs Retirement System is funded by member and county contributions. The Judges Retirement System is funded by member and state contributions. The Highway Patrol Officers Retirement System is funded by member and state contributions. The Firefighters Unified Retirement System is funded by employer and employee contributions as well as a portion of insurance premium taxes collected by the State. The Volunteer Firefighters Compensation Act is funded by contributions by the State of a percentage of fire insurance premium taxes collected. The State of Montana Deferred Compensation Program is funded from member contributions.

The Board is a discretely presented component unit Pension Trust Fund for the eight separate retirement systems and an Expendable Trust Fund for the Deferred Compensation Program that is audited annually by the Legislative Audit Division. Its report is issued under separate cover and is available at 100 N Park, PO Box 200131, Helena, MT 59620-0131.

Universities and Colleges (Higher Education Funds) - The State Board of Regents has responsibility for the following institutions: University of Montana-Missoula and the units under it including Montana Tech of the University of Montana, Western Montana College of the University of Montana and the Helena College of Technology; and Montana State University-Bozeman and the units under it including Montana State University-Billings, Montana State University-Northern, and the Great Falls College of Technology. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. Individual audit reports are issued by the Legislative Auditor every two years. The reports are issued under separate cover and are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 2500 Broadway, PO Box 203101, Helena, MT 59620.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation, and (3) private foundations supporting public education, over which the State exercises neither financial nor administrative control (see Note 18). Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State's support of local public education systems is reported in the General Fund.

B. Fund Structure - The State uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The financial activities of the State of Montana are classified into fund categories and account groups as described below:

GOVERNMENTAL FUNDS

General Fund - To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes (other than expendable trusts or major capital projects).

Debt Service Funds - To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds - To account for resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

PROPRIETARY FUNDS

Enterprise Funds - To account for operations (1) financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs primarily through user charges; or (2) where the legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Internal Service Funds - To account for the financing of goods and services provided by one department or agency to other departments, agencies or other governmental entities on a cost-reimbursement basis.

FIDUCIARY FUNDS

Trust and Agency Funds - To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. These include: (1) Expendable Trust Funds; (2) Nonexpendable Trust Funds; (3) Pension Trust Funds; (4) Agency Funds, and (5) Investment Trust Funds.

ACCOUNT GROUPS

General Fixed Assets Account Group - To account for all fixed assets of the State, except those accounted for in the Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

General Long-Term Obligations Account Group - To account for all long-term obligations of the State, except those accounted for in Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

HIGHER EDUCATION (UNIVERSITY AND COLLEGE) FUNDS

Current Funds

Unrestricted

General Operating - To account for the portion of financial resources that can be expended for general operations and is free of externally imposed restrictions, except those imposed by the legislature.

Designated - To account for those resources associated with general operations which are separately classified in order to accumulate costs recharged to other funds and to identify special activities of educational departments which are supported by supplemental assessments and the receipt and disposition of special supply and facility fees which are approved for collection beyond normal course fees.

Auxiliary - To account for those financial resources devoted to providing essential on-campus services primarily to students, faculty or staff where a fee relating to the service is charged.

Restricted - To account for the portion of financial resources that can be expended only for purposes imposed by sources external to the Board of Regents and the legislature.

Fiduciary Funds

Student Loans - To account for monies, which may be loaned, to students, faculty or staff for purposes related to education, organized research or public services by the higher education units.

Endowments - To account for monies where the principal is available for investment. Investment earnings are to be transferred to (or recorded directly in) appropriate operating funds pursuant to prevailing administrative requirements.

Agency - To account for monies where the State acts in the capacity of a custodian or fiscal agent for individual students, faculty, staff or qualified organizations.

Plant Funds

Unexpended - To account for unexpended resources derived from various sources which are used to finance the acquisition/construction of plant assets and the associated liabilities.

Renewal and Replacement - To account for resources used to provide for the renewal and replacement of plant fund assets as distinguished from additions and improvements.

Retirement of Indebtedness - To account for resources accumulated for interest and principal payments and other debt service charges, including contributions to reserves, relating to plant fund indebtedness.

Investment in Plant - To account for all long-lived assets in the service of the higher education unit as well as all associated liabilities.

C. Basis of Accounting - The accounting and reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds and Expendable Trust Funds are accounted for on a current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is followed in the Governmental Funds, Expendable Trust Funds and in the Agency Funds for the purpose of asset and liability recognition. Under the modified accrual basis, revenues are susceptible to accrual and recognized when they are measurable and available to pay current period liabilities. Intergovernmental revenues received as reimbursements are recognized based upon the expenditures incurred. Intergovernmental revenues received but not earned are recorded as deferred revenues. All other revenue including

taxes on coal sales, gas and oil production, individual income and other self-assessed taxes is considered available if due within 60 days of fiscal year-end. Based on historical analysis, a liability has been recognized for collected withholding taxes to be refunded in fiscal year 2002. Expenditures are recognized when the related fund liability is incurred, with the following exceptions:

- (1) principal and interest on long-term debt is recognized when due;
- (2) prepayments are accounted for as expenditures in the period of acquisition; and
- (3) inventory items are considered expenditures when purchased.

All Proprietary, Pension Trust, Investment Trust and Nonexpendable Trust Funds are accounted for on an economic resources measurement focus. This means all assets and liabilities associated with these activities are included on their balance sheets. Operating statements for these funds present increases (revenues) and decreases (expenses) in net total assets.

Proprietary, Pension Trust, Investment Trust, Nonexpendable Trust and Higher Education Funds are maintained and reported on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable. In Higher Education Funds, depreciation expense related to plant fund assets is not recorded; summer session student tuition and fee revenues and expenditures are deferred at June 30 and recorded as revenue and expenditures in the succeeding fiscal year. Unbilled receivables of Proprietary and Higher Education Funds are recognized as revenue.

Significant intrafund transactions and balances have been eliminated.

D. Proprietary Activity Accounting and Financial Reporting - Activities accounted for in the States proprietary, non-expendable trust and pension trust funds and proprietary type component units follow GAAP prescribed by the GASB and all Financial Accounting Standards Board standards issued on or before November 30, 1989. Subsequent to this date, the State accounts for these activities as prescribed by the GASB.

E. Cash/Cash Equivalents - For all funds, except the Housing Authority in the Component Unit Proprietary Funds, cash and cash equivalents consist of funds deposited by individual funds in the State Treasurers pooled cash account, cash deposits in checking accounts, cash invested in the Short Term Investment Pool, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the State Treasurer, other cash deposits, and mortgage payments in transit (See Note 4).

F. Receivables - This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. The allowance for uncollectible taxes at June 30, 2001, was \$10.3 million.

G. Inventories - Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental and Expendable Trust Funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as a reserve of fund balance, indicating they do not constitute available expendable resources. An exception is the Special Revenue Fund food stamp inventory balance, which is offset by deferred revenue.

Proprietary, Pension Trust, Nonexpendable Trust, Investment Trust and Higher Education Funds report using the "consumption method," meaning inventories are expensed as used.

H. Investments - In accordance with the Montana Constitution and the statutorily mandated "Prudent Expert Rule," the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Most investments are reported at fair value in the balance sheet. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 4 on Cash/Cash Equivalents and Investments).

I. Equity in Pooled Investments - The Montana Board of Investments manages the State's Unified Investment Program which includes five internal investment pools. Participation in the pools is limited to Expendable Trust Funds; including the Deferred Compensation Plan, Nonexpendable Trust Funds, Pension Trust Funds, Higher Education Endowment and Trust Funds, and specific trusts established within the State Special Revenue Fund. The participants' investments in the pools are reported at fair value in the balance sheet within the individual funds (See Note 4 on Cash/Cash Equivalents and Investments).

J. Fixed Assets - Fixed asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure fixed assets and interest expenditures for general fixed assets are not capitalized. Infrastructure assets of primary government and component unit proprietary activities are capitalized. Interest incurred during the construction of fixed assets for proprietary funds and higher education units is capitalized.

Fixed assets are not depreciated in the General Fixed Assets Account Group. Purchases of such assets are recorded as expenditures in the appropriate governmental fund. Fixed assets in Proprietary, Nonexpendable Trust and Pension Trust Funds are accounted for within their respective funds and are depreciated. Expendable Trust Funds do not report fixed assets within their funds because the assets are purchased by other funds. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 20 years for improvements and 3 to 10 years for equipment. Fixed assets and intangible assets for Higher Education units are accounted for in the Investment in Plant Fund and are not depreciated.

The capitalization threshold for recording fixed assets is \$5,000. Purchases under this threshold are recorded as expenditures/expenses in the current period.

K. Deferred Revenue - Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the State has a legal claim to the resources, the liability for deferred revenue is removed from the Combined Balance Sheet and revenue is recognized.

L. Long-Term Obligations - Long-term obligations expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from current expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-Term Debt Account Group.

Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

M. Capital Leases - A capital lease is generally defined by Statement of Financial Accounting Standards No. 13 Accounting for Leases as one which transfers benefits and risks of ownership to the lessee. Leases meeting the criteria of a capital lease as defined are recorded at inception as expenditures and other financing sources in governmental fund types and as assets and liabilities in the General Fixed Assets and General Long-Term Debt Account Groups, respectively, at the present value of the future minimum lease payments, using the interest rates stated in the leases.

N. Bond Discounts/Premiums/Issuance Costs - In governmental funds, bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond proceeds are reported as an other financing source net of any premium or discount. Issuance costs are reported as debt service expenditures whether or not they are withheld from the net bond proceeds. In proprietary fund types, bond premiums and discounts are deferred and amortized over the life of the bonds, which approximates the effective interest method. Bonds payable are recorded net of any applicable premium or discount while issuance costs are reported as deferred charges.

O. Compensated Absences - Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the state do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. For fiscal year 2001, 1,394.5 hours were contributed to the sick leave pool and 2,104.5 hours were withdrawn leaving a balance of 3,064 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to participants except by grants approved through an application process.

Vested or accumulated leave of Proprietary and Pension Trust Funds is recorded as an expense and liability of those funds; for higher education the expense and liability is recorded as the benefits accrue to employees. The liability amount recorded in the General Long-Term Obligations Account Group is not expected to be liquidated with expendable financial resources, thus no expenditure or liability is reported in the governmental funds. Upon retirement or termination, an employee is paid for 100 percent of unused vacation leave and 25 percent of unused sick leave.

As of June 30, 2001, the State's liability for unused vacation and sick leave for Higher Education Funds was \$35,119,433. The leave liabilities for the remaining agencies at June 30, 2001, were \$65,733,023, an increase of

\$4,247,023 over the June 30, 2000, leave liability of \$61,486,000. The following table reflects the change (in thousands):

	Balance July 1, 2000	Leave Earned	Leave Used	Balance June 30, 2001
Primary Government				
Governmental Fund Types and Similar Trust Funds	\$54,880	\$34,647	\$30,564	\$58,964
Proprietary Fund Types and Similar Trust Funds	5,283	2,342	2,468	5,157
Total	\$60,163	\$36,989	\$33,032	\$64,121
Component Units				
Proprietary Fund Types and Similar Trust Funds	1,323	1,047	757	1,613
Total Non-Higher Education Funds	\$61,486	\$38,036	\$33,789	\$65,734

P. Encumbrances - The State utilizes encumbrance accounting to record purchase orders, contracts and other commitments for the expenditure of monies to assure effective budgetary control and accountability. Encumbrances outstanding at year-end represent the estimated amount of expenditures likely to result if orders for goods and services are completed. In governmental funds, encumbrances outstanding at year-end are reported as reservations of fund balances since they do not represent expenditures or liabilities.

Q. Advances to Other Funds - Noncurrent portions of long-term interfund receivables are reported as advances and are offset equally by a fund balance reserve account, which indicates that they do not constitute expendable available financial resources. The transaction is recognized by the receiving fund in the balance sheet account Advances From Other Funds.

R. Fund Equity - Contributed capital is recorded in proprietary funds that have received capital from other funds. Reservations represent those portions of fund equity or retained earnings not appropriated for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for the future use of financial resources. In FY2001 the General Fund designated fund balance represents the 1999 Legislature's desire to set aside \$30 million in tobacco settlement funds for revenue stabilization. Undesignated fund balances indicate that portion of fund equity that is available for budgeting in future years subject to working capital requirements.

S. Property Taxes - Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due. The State recognizes property tax revenues as available if they are collectible within 60 days after fiscal year-end. Material delinquent and total uncollected current year property taxes receivable are recorded as receivables (net of uncollectibles).

Personal property tax levies are set each August and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due. Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

T. Other Taxes - On the Combined Statement of Revenues, Expenditures and Changes in Fund Balances for All Governmental Fund Types and Expendable Trust Funds, the revenue category "Other Taxes" consists of the following taxes (in thousands):

	General Fund	Special Revenue Fund	Capital Projects Fund	Total
Video Gaming	\$ 20,535	\$19,572	\$ -	\$ 40,107
Insurance Premium	41,064	36	-	41,100
Inheritance	17,643	-	-	17,643
University System Millage	1,197	13,080	-	14,277
Cigarette/Tobacco	10,498	1,692	1,831	14,021
Accommodations	52	11,053	-	11,105
Telephone License	20,339	-	-	20,339
Alcoholic Beverage	1,423	3,960	-	5,383
Electrical Energy	8,372	-	-	8,372
Public Contractor	700	-	-	700
Livestock	-	3,220	-	3,220
Public Service Commission	-	2,803	-	2,803
Freight Line	1,556	-	-	1,556

	General Fund	Special Revenue Fund	Capital Projects Fund	Total
Fire Protection	-	1,980	-	1,980
Wheat Sales	-	1,313	-	1,313
Vehicle	-	1,446	-	1,446
Consumer Counsel	-	1,018	-	1,018
Miscellaneous	136	1,544	-	1,680
Total Other Taxes	\$123,515	\$62,717	\$1,831	\$188,063

2. BUDGETARY REPORTING

A. State Budget Process - The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The constitution requires that legislative appropriations not exceed available revenues. The legislature utilizes revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budgeted appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the General, Special Revenue and Capital Projects Funds, except for those Special Revenue Funds from nonstate and nonfederal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except Capital Project Funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor and the Legislative Fiscal Division. The Governor and budget director establish priorities and balance the budget. The Governor's budget is submitted to the Legislative Fiscal Division which prepares recommendations. A comparison of those recommendations with the Governor's budget is submitted to the legislature. Joint appropriations subcommittee hearings are held and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. The Office of Budget and Program Planning establishes appropriations for each program by accounting entity (fund) within an agency. The legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the legislature may authorize supplemental appropriations. The Governor, or his designee, may approve budget amendments for non-general fund monies not available for consideration by the legislature and for emergencies. In the accompanying financial statements, reported budget amounts are as amended. There have been budget amendments authorized for fiscal year 2001 that were material to specific budgets, however, they did not materially affect the State's budget as a whole. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued/encumbered. Fund balances/retained earnings are not reserved for reverted appropriations. For fiscal year 2001, reverted appropriations for all funds were \$519.5 million of which \$41.5 million were for the General Fund and \$438.3 million were for the Special Revenue Fund. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of the budget office.

Appropriations for Capital Projects Funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

B. Budget Basis - The legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in Proprietary Funds; compensated absences and inventories purchased in Higher Education Funds; certain loans from governmental funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.). The General and Special Revenue Fund Type budgetary statement includes a reconciliation of unreserved fund balance between "Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses" on the budgetary basis and the GAAP basis.

3. OTHER ACCOUNTING ISSUES

A. Accounting and Reporting Changes - The State made changes in its accounting and reporting practices to enhance conformance with GAAP. All changes reported in the accompanying financial statements that resulted in the restatement of beginning fund equity were made to correct errors of prior periods.

B. State Compensation Insurance Fund - The workers compensation benefit/claims expenditure amount (in thousands) of \$74,476 reported in the component unit's column in the combined proprietary fund operating statement consists of the amount of benefits paid and the actuarially determined change in estimated claims liability for the State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). The amounts for each fund are broken down as follows:

	<u>State Compensation Insurance</u>	
	<u>New Fund</u>	<u>Old Fund</u>
Benefit and Loss Adjustment Expense	\$62,798	\$ 13,936
Incr (Decr) in Actuarially Estimated Claims	10,987	(13,245)
Total Benefits/Claims	<u>\$73,785</u>	<u>\$ 691</u>

4. CASH/CASH EQUIVALENTS AND INVESTMENTS

This footnote details the following balance sheet classifications (in thousands):

Cash/Cash Equivalents	\$1,953,453
Equity in Pooled Investments	\$5,770,014
Investments	\$1,962,694

Carrying amounts and fair values (Bank Balance for Cash Deposits) for the State's cash/cash equivalents and investments are presented in Tables 1 through 4.

A. General

(1) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer pooled cash account, cash deposits in checking accounts, cash invested in the Short Term Investment Pool, undeposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer pooled cash account is invested by the Montana Board of Investments (BOI) in short term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. In addition to the State Treasurer pooled cash account there is a short term investment pool (STIP) maintained by the BOI. This investment fund provides individual state agencies and local governments an opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short term, highly liquid investments, the individual funds investments in the STIP are reported as a cash equivalent.

Although STIP, an external investment pool, is not registered with the Securities and Exchange Commission (SEC) as an investment company, the BOI has as policy that STIP will, and does, operate in a manner consistent with the SEC Rule 2a7 of the Investment Company Act of 1940. In meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. Investments held are reported at fair value, annually, and the difference between amortized cost and fair value is reflected as an unrealized gain or loss in the investments managed. The portfolio is carried at amortized cost or book value. State agencies that are allowed to retain their investment earnings within their funds are only allowed to invest in STIP. Local government participation in STIP is also voluntary. Separately issued external investment pool financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

Deposits with financial institutions are categorized to indicate the level of risk assumed by the State. **Category 1** consists of deposits that are insured or collateralized with securities held by the State or by its agent in the State's name. **Category 2** consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the State's name. **Category 3** deposits are uncollateralized. The State's Cash Deposits are categorized in Table 1.

The State's cash equivalents and investments are categorized to indicate the risk level assumed by the State in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments and Table 4 - Investments to disclose the level of risk assumed by the State at fiscal year-end.

Category 1 includes investments that are insured or registered securities held by the State or its agent in the State's name. **Category 2** includes uninsured and unregistered investments in which the securities are held by the counter party's trust department or agent in the State's name. **Category 3** includes uninsured and unregistered investments in which the securities are held by the counter party, or by its trust department or agent, but not in the State's name. None of the State's cash equivalents or investments are classified in Category 3 at fiscal year-end. **Not Categorized** includes investments held by broker-dealers under securities loans with cash collateral.

(2) The State invests in certain types of securities including asset-backed securities, variable-rate instruments, zero coupon bonds, preferred stocks (convertible equity securities), and mortgage-backed securities in addition to other long term investment securities to provide a diversified investment portfolio and an overall competitive rate of return. All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments.

Asset-backed securities represent debt securities collateralized by a pool of non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. These securities have less credit risk than do securities not backed by pledged assets, while market risk for asset-backed securities is the same as market risk for similar non asset-backed securities.

Variable-rate instruments pay a variable rate of interest until maturity. The variable rate floats with the 91 day treasury bill or the London Interbank Offered Rate (LIBOR). Variable-rate instruments have credit risk identical to similar fixed-rate securities; however, their market risk (income) is more sensitive to interest rate changes. Their market risk (value/price) may be less volatile than fixed-rate securities because their value will usually remain near par as a result of interest rates being periodically reset to maintain a current market yield.

Zero Coupon Bonds and Preferred Stocks include securities whose structure differs from the basic convertible security structure. These include PENs (Participating Equity Notes), PERCs (Preferred Equity Redemption Coupons), DECS (Dividend Enhanced Common Stock) and ACES (Automatically Convertible Equity Securities). PENs are corporate bonds offering the investor a choice at maturity of receiving the greater of the bond's par value or the value of a preset ratio of an established index. PERCs reflect an investor's acceptance of a cap in a security's price appreciation in exchange for a higher income yield. DECS and ACES are issued, and traded, at a premium to the underlying common stock in exchange for a higher dividend yield. The State's investment policy requires convertible debt and zero coupon bonds to be rated at a specific level at time of purchase as a credit risk control measure. These securities carry market risk and the potential for change in market value. Market value changes may occur due to interest rate changes, declines in the value of underlying common stock, or the triggering of a call feature and other factors.

Mortgage-backed securities reflect participation in a pool of residential mortgages. These securities include structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). Some REMICs are principal-only strips (POS) and interest-only strips (IOS). These securities are based on the cash flows from the principal and interest payments on underlying mortgages, respectively. These securities have credit risk as measured by major credit rating services. The State's investment policy requires these investments to be rated investment grade at the time of purchase. Market risk for these securities is caused by changes in the price or principal value of the securities due to changes in interest rates.

There are no legal risks, as of June 30, 2001, that the State is aware of regarding any investments.

(3) Under the provisions of State statutes, the State has, via a Securities Lending Authorization Agreement, authorized the State's agent to lend the State's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the State receives a fee and the agent must initially receive collateral equal to 102% - 105% of the fair value of the securities on loan and maintain collateral equal to not less than 100% of the fair value of the loaned security. During fiscal year 2001, the State's agent loaned, on behalf of the State, certain securities held by the agent, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. The State's agent does not have the ability to pledge or sell collateral securities unless the borrower defaults. The State retains all rights and risks of ownership for the loaned securities. On June 30, 2001, the State had no credit risk exposure to borrowers.

B. Cash/Cash Equivalents

(1) **Cash Deposits** - The State requires collateralization based on the average daily bank balance in the depository bank holding the main State bank account. For other depository banks, State statutes require collateralization at 50% of the bank balance. The Cash Deposit amounts include both Primary Government and Component Unit deposits.

Table 1 - Cash Deposits (in Thousands)

Risk Category		Carrying Amount	Bank Balance	Fund
1	Insured (FDIC)	\$ 1,752	\$ 1,752	Various
	Collateral held by State/State's agent	29,612	29,612	Various
2		4,789	4,789	Various
3		11,131	11,131	Various
Uncategorized:				
	Undeposited Cash	2,907		
	Cash in U.S. Treasury	176,133		
	Less: Outstanding Warrants	(62,665)		
Total Cash Deposits		\$163,659		

As of June 30, 2001, the carrying amount of deposits for component units was \$50,975,948 and the bank balance was \$49,615,035. Of the bank balance, \$49,615,035 was fully insured or collateralized with securities held by the component units or their agents in the unit's name and \$61,871 was collateralized with securities held by the pledging institution's trust department or its agent in the respective component unit's name.

(2) Cash Equivalents - consists of cash in the State Treasury invested by individual funds in the Short Term Investment Pool (STIP) and the Treasurer Cash Pool in identifiable securities and investments considered to be cash equivalents. Cash equivalents, except for the Housing Authority in the Component Unit Proprietary Fund, generally are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the State Treasurer, other cash deposits, and mortgage payments in transit. Cash equivalents may be under the control of the Board of Investments (the Board) or other agencies, as allowed by law.

Table 2 - Cash Equivalents (in Thousands)

	Risk Category 1			Carrying Amount	Fair Value	Fund
	Securities Not on Loan	On Loan for* Securities Collateral	Not* Categorized			
Asset-Backed Securities	\$662,180	\$-	\$-	\$ 662,180	\$ 662,064	Various
Corporate Obligations	598,472	-	-	598,472	600,526	Various
Government Securities	129,698	-	-	129,698	132,481	Various
Repurchase Agreements	61,500	-	-	61,500	61,500	Various
Variable-Rate	299,009	-	-	299,009	299,127	Various
Direct Investments:						
Money Markets				38,935	38,935	Various
Guaranteed Investment Contracts				-	-	Various
Total Cash Equivalents				\$1,789,794	\$1,794,633	
Securities Lending Collateral Investment Pool			\$-	\$ -	\$ -	

* At June 30, 2001, no securities were loaned for securities or cash collateral under a security lending agreement with the State's agent.

As of June 30, 2001, local governments invested \$768,239,670 in the STIP.

As of June 30, 2001, component units of the State of Montana had investments in cash equivalents with a book value and fair value of \$338,297,098.

C. Equity in Pooled Investments - Consists of investments held by pooled investment funds. The Montana Stock Pool (MTCP), Trust Funds Bond Pool (TFBP), Retirement Funds Bond Pool (RFBP), Montana International Pool (MTIP), and Montana Real Estate Pool (MTRP) were created to allow qualifying funds to participate in diversified investment pools. Participation is restricted to expendable trust, nonexpendable trust, pension trust, higher education endowment and trust funds, the Deferred Compensation Plan and specific trusts established within the State Special Revenue Fund. Purchases are subject to statutory restrictions for quality and size of holdings.

Table 3 - Equity In Pooled Investments (in Thousands)

	Risk Category 1				
	Securities Not on Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
MTCP:					
Corporate Stocks	\$1,729,626	\$ -	\$ -	\$1,729,626	\$2,307,242
SPIFF	26,773	-	-	26,773	26,357
TFBP:					
Corporate Asset Backed	7,880	-	-	7,880	8,152
Corporate Stocks	691,060	-	7,914	698,974	697,310
US Govt. Mortgage Backed	48,523	-	-	48,523	48,336
US Govt. Direct	155,742	-	99,456	255,198	272,981
Yankee Bonds	88,399	-	-	88,399	85,270
State and Local Government	21,904	-	-	21,904	21,907
RFBP:					
Corporate Asset Backed	4,514	-	-	4,514	4,653
Corporate Stocks	1,139,909	-	17,095	1,157,004	1,150,231
US Govt. Mortgage Backed	77,460	-	-	77,460	78,357
US Govt. Direct	295,554	-	141,812	437,366	470,455
Yankee Bonds	115,114	-	2,400	117,514	113,283
State and Local Government	2,320	-	-	2,320	2,320
MTIP:					
BOI Internal International	120,718	500	26,007	147,225	149,423
Pyford International	72,425	-	7,308	79,733	73,435
Schroder Capital Management	82,512	104	10,241	92,857	88,890
SG Pacific Asset Management	75,230	395	8,338	83,963	77,683
Total Pooled Investments	4,755,663	999	320,571	5,077,233	5,676,285
Other Pool Assets (Net)	-	-	-	93,730	93,730
Total - Equity In Pooled Investments	\$4,755,663	\$999	\$320,570	\$5,170,962	\$5,770,014
Securities Lending Collateral Investment Pool			\$351,185	\$ 351,185	\$ 351,185

* At June 30, 2001, these underlying securities, with fair values of \$886,804 and \$336,274,991, respectively, were loaned for securities and cash under a security lending agreement with the State's agent.

As of June 30, 2001, component units of the State of Montana had equity in pooled investments with a book value of \$3,107,290,593 and a fair value of \$4,664,997,502.

D. Investments - Long-term investments are primarily administered by three state agencies. Article 8 of Montana's Constitution, with supporting statutes, authorizes the Board of Investments (BOI) to manage the State's unified investment program. State law specifies which agencies may hold investments outside the administration of the BOI. The BOI, as the State's primary administrator of long-term investments, actively manages 82% of those investments; the Board of Housing, 11%; and the Department of Administration's Public Employees Retirement Board, 6% for the State's Deferred Compensation Plan. Additionally, the Department of Natural Resources and Conservation manages 1% of total investments for bond related activities.

The BOI must employ the "Prudent Expert Rule" in managing the State's investment portfolio. Investments are presented in the Balance Sheet at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to the BOI's custodial bank or trustee. Amortized cost, or carrying value, represents the original cost adjusted for premium and discount amortization where applicable.

The Board of Investments continued to invest in leveraged buyouts in fiscal year 2001. The Board's total leveraged buyout commitment, administered by Kohlberg, Kravis, Roberts and Companies (KKR), amounts to \$125 million for

the 1996 and European funds as of June 30, 2001. The leveraged buyout invested balance for the pension funds amounted to \$98,439,794 on June 30, 2001.

On January 19, 2001, the Board approved a staff recommendation to commit \$25 million in the leveraged buyout fund of Madison Dearborn Partners IV. As of June 30, 2001, the pension funds invested balance totaled \$365,628.

On September 22, 2000, the Board approved a staff recommendation to commit \$25 million in the leveraged buyout fund of Welsh Carson Anderson & Stowe IV. As of June 30, 2001, the pension funds invested balance totaled \$4,750,000.

As of June 30, 2001, the Board has a \$165.5 million commitment for venture capital investments administered by Adams Street Partners, formerly Brinson Partners. The June 30, 2001 venture capital invested balance totaled \$31,049,359 for the Public Employees Retirement and \$25,404,017 for the Teachers' Retirement Systems.

On August 17, 2001, the Board approved a \$40 million commitment to invest in the Brinson Partnership Fund – US 2002 Subscription. The Board also approved a \$40 million commitment to invest in the Adams Street V direct investment fund.

On May 18, 2001, the Board moved that \$50 million be invested with Lexington Partners L.P. Fund V, a secondary venture capital market fund. As of June 30, 2001, this investment had not been funded.

The Board committed to invest, on behalf of the retirement funds, in the S&P 500 Equity Index Fund A managed by Barclays Global Investors. As of June 30, 2001, the pension funds had an invested balance of \$255 million.

Upon receiving electorate approval, the Board began investing for the State Fund in January 2001 in the S&P 500 Equity Index Fund B managed by Barclays Global Investors. As of June 30, 2001, State Fund's invested balance totaled \$24,000,000.

Table 4 – Investments (Risk Categories) (in Thousands)

	Risk Category 1				
	Securities Not on Loan	Risk Category 2	Not Categorized*	Carrying Amount	Fair Value
Primary Government					
Corporate Bonds	\$ 67,338	\$ -	\$ 13,052	\$ 80,390	\$ 81,481
Corporate Asset-Backed	45,367	-	-	45,367	46,125
Government Securities	112,669	-	-	112,669	113,749
Government Mortgage-Backed	21,719	-	-	21,719	21,428
Other	6,008	-	1,000	7,008	6,670
Total	\$253,101	\$ -	\$ 14,052	\$ 267,152	\$ 269,453
Component Units					
Corporate Bonds	\$204,339	\$ -	\$ -	\$ 204,339	\$ 207,606
Corporate Asset-Backed	20,223	-	-	20,223	20,548
Government Securities	55,234	58,315	92,273	205,821	211,861
Government Mortgage-Backed	46,787	-	-	46,787	46,478
Other	8,468	154,521	-	162,989	162,630
Total	335,051	212,836	92,273	640,159	649,123
Total	\$588,152	\$212,836	\$106,325	\$ 907,311	\$ 918,576

Direct Investments:

Primary Government

Commercial Loans	164,625	164,625
Total	<u>\$ 164,625</u>	<u>\$ 164,625</u>

Component Units

Real Estate	\$ 12,080	\$ 13,600
Mortgages	281,207	281,505
Deferred Compensation	123,999	126,751
Other	439,009	457,637
Total	<u>856,295</u>	<u>879,565</u>

Total Investments

<u>\$1,928,232</u>	<u>\$1,962,694</u>
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Table 4 – Investments (Risk Categories) (in Thousands)

	<u>Risk Category 1</u> Securities Not on Loan	Risk Category 2	Not Categorized*	Carrying Amount	Fair Value
Primary Government					
Securities Lending Collateral Investment Pool			\$116,327	\$ 116,327	\$ 116,327

* At June 30, 2001, the underlying securities, with fair values of \$111,818,481 were loaned for cash collateral under a security lending agreement with the State's agent.

5. FIXED ASSETS

Changes in fixed asset balances for the fiscal year ended June 30, 2001, are reflected in the following table (Intrafund transfers of fixed assets have not been eliminated) (in thousands):

Primary Government

	Balance July 1, 2000	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 2001
<u>Proprietary Funds</u>				
Land	\$ 1,036	\$ -	\$ -	\$ 1,036
Buildings/Improvements	5,873	83	107	5,849
Equipment	143,033	19,235	2,843	159,425
Other Fixed Assets	1,147	7	-	1,154
Construction in Progress	5,257	-	2,014	3,243
Subtotal/Total	156,346	\$ 19,325	\$ 4,964	170,707
Accumulated Depreciation	(82,401)			(92,756)
Total	\$ 73,945			\$ 77,951

Nonexpendable Trust Funds

Land	\$ 51,260	\$ -	\$ -	\$ 51,260
Other Fixed Assets	1	-	-	1
Total	\$ 51,261	\$ -	\$ -	\$ 51,261

General Fixed Assets Account Group

Land	\$ 66,267	\$ 6,104	\$ 1,114	\$ 71,257
Buildings/Improvements	386,289	48,250	9,376	425,163
Equipment	64,478	8,113	7,771	64,820
Other Fixed Assets	65,159	424	82	65,501
Construction in Progress	67,516	3,885	42,830	28,571
Total	\$649,709	\$ 66,776	\$61,173	\$655,312

Component Units

Proprietary Funds

Equipment	\$ 2,744	\$ 532	\$ 425	\$ 2,851
Accumulated Depreciation	(1,508)			(1,494)
Total	\$ 1,236			\$ 1,357

Pension Trust Fund

Land	\$ 60	\$ -	\$ 25	\$ 35
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Primary Government

	Balance July 1, 2000	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 2001
Buildings/Improvements	435		277	158
Equipment	152	-	10	142
Subtotal/Total	647	\$ -	\$ 312	335
Accumulated Depreciation	(399)			(222)
Total	\$ 248			\$ 113
Higher Education Funds				
Land	\$ 13,728	\$ 68	\$ 96	\$ 13,700
Buildings/Improvements	526,955	68,870	878	594,947
Equipment	111,224	12,733	5,515	118,442
Other Fixed Assets	91,274	4,799	203	95,870
Construction in Progress	30,388	13,977	28,704	15,661
Intangible Assets	3,477	430	-	3,907
Total	\$777,046	\$100,877	\$34,350	\$842,236

6. RETIREMENT SYSTEMS

DEFINED CONTRIBUTION PLAN

Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members who did not elect the ORP participate in the Teachers Retirement System, a defined benefit plan discussed in the next section. Beginning July 1, 1993, membership in the ORP is mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These monies are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. As of June 30, 2001, 1,859 employees are members of the ORP. Required employee contributions are 7.044% of salary and required employer contributions are 4.956% of salary for a total of 12% of salary contributed to the ORP.

	TIAA-CREF <i>(in Thousands)</i>
Covered Payroll	\$ 90,171
Total Payroll	250,057
Employer Contributions	\$ 4,467
Percent of Covered Payroll	4.954%
Employee Contributions	\$ 6,352
Percent of Covered Payroll	7.044%

DEFINED BENEFIT PLANS

A. General

The Public Employees Retirement Board, a discretely presented component unit of the State of Montana, administers eight defined benefit plans - Public Employees Retirement System (PERS), Highway Patrol Officers Retirement System (HPORS), Judges Retirement System (JRS), Game Wardens and Peace Officers Retirement System (GWPORS), Sheriffs Retirement System (SRS), Municipal Police Officers Retirement System (MPORS), Firefighters Unified Retirement System (FURS), and Volunteer Firefighters Compensation Act (VFCA). The board prepares a

publicly issued financial report that includes financial statements and required supplementary information for PERS, HPORS, JRS, GWPORS, SRS, MPORS, FURS, and VFCA.

The financial statements for PERS include activity for a defined benefit and a defined contribution retirement plan and an education fund. The defined contribution plan will be available to all active PERS members starting July 1, 2002. Per Article VIII, Section 15, of the Montana Constitution, "Public retirement system assets, including income and actuarially required contributions, shall not be encumbered, diverted, reduced, or terminated and shall be held in trust to provide benefits to participants and their beneficiaries and to defray administrative expenses." The assets and liabilities of one retirement plan cannot be co-mingled with those of another plan. The PERS received a long-term loan for \$670,000 from the Montana Department of Administration to fund the defined contribution plan start-up and implementation costs. The education fund was established to inform the PERS members about the plan choices. Activity reported for the defined contribution plan and the education fund for June 30, 2001, follows (in thousands):

**Statement of Plan Net Assets
June 30, 2001**

	Defined Contribution	Education Fund
Assets:		
Cash/Cash Equivalents	\$ 146	\$1,397
Receivables (Net)	1	67
Total Assets	\$ 147	\$1,464
Liabilities:		
Accounts Payable	\$ 722	\$ 52
Compensated Absences Payable	10	5
Total Liabilities	\$ 732	\$ 57
Fund Balances Reserved for Employee Pension Benefits	\$(585)	\$1,407

**Statement of Changes in Plan Net Assets
For the Fiscal Year Ended June 30, 2001**

	Defined Contribution	Education Fund
Additions:		
Employer Contributions	\$ -	\$ 768
Receivables (Net)	4	52
Total Additions	4	820
Deductions:		
Administrative Expense	271	132
Total Deductions	271	132
Net Increase (Decrease)	(267)	688
Fund Balances Reserved for Employee Pension Benefits – July 1 As Previously Reported	(334)	719
Prior Period Adjustments	16	-
Fund Balances Reserved for Employee Pension Benefits – July 1 As Restated	(318)	719
Fund Balances Reserved for Employee Pension Benefits – June 30	\$(585)	\$1,407

The Teachers Retirement System (TRS) is a discretely presented component unit of the State of Montana. The system prepares a publicly issued financial report that includes financial statements and required supplementary information for TRS.

A summary of government employers participating in PERS, SRS, MPORS, HPORS, FURS, GWPORS, JRS and TRS by employer type at June 30, 2001, follows:

	Retirement System							
	PERS	SRS	MPORS	HPORS	FURS	GWPORS	JRS	TRS
Employers								
State Agencies	34	1		1		5	1	8
Counties	55	55						
Cities/Towns	90		21		14			
Colleges/Universities	5					3		8
School Districts	240							384
Other	86							
Total	510	56	21	1	14	8	1	400

B. Plan Descriptions

The State contributes to and/or administers nine plans in four categories: (1) the State as the single employer; (2) the State as an employer contributor to cost-sharing multiple-employer plans; (3) the State as a nonemployer contributor to cost-sharing multiple employer plans; and (4) the State as a nonemployer contributor.

The number of years required to obtain vested rights varies among the systems. All systems provide early retirement options, death benefits, termination and disability benefits. The post-retirement benefits of each of the systems are included in the plan descriptions below. In addition, the 1997 Legislature passed a guaranteed annual benefit adjustment (GABA) to the PERS, MPORS, GWPORS, SRS, JRS, HPORS, and FURS that will provide a benefit increase of 1.5% each January, beginning January 1998, if the recipient has been receiving a retirement benefit for at least 36 months. In addition, MPORS, JRS, HPORS & FURS members hired prior to July 1, 1997, and retirees of these systems, were required to make an election by December 31, 1997, for GABA coverage.

The funding policies for each system provide for periodic employer and employee contributions (except VFCA) at rates specified by state law; contribution requirements are not actuarially determined. An actuary determines the actuarial implications of the funding requirement in a biennial actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry age normal cost method, with both normal cost and amortization of the unfunded accrued liability determined as a level percentage of payroll. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost in addition to amortizing the unfunded liability over a period not to exceed 30 years.

(1) State as the Single Employer

HPORS - Highway Patrol Officers Retirement System - This system, established in 1971 and governed by Title 19, chapters 2 & 6 of the Montana Code Annotated (MCA), provides retirement benefits for all members of the Montana Highway Patrol, including supervisory personnel. Rights are vested after five years of service. Member contributions are 9% of total salaries of active highway patrol officers hired prior to July 1, 1997 and not electing GABA coverage; and 9.05% for members hired after June 30, 1997 and members electing GABA coverage. The employer contribution rate is 36.33% of active officer's salaries. For members, there is no minimum age, but minimum service is 20 years for benefit eligibility. The service retirement benefit is based on a formula of 2.5% times the number of years of service times the highest average compensation. Post-retirement benefits, for non-GABA members, are in the form of minimum benefit supplements which ensure the retiree's benefit is no less than 2% of a probationary highway patrol officer's salary for each year of the retiree's service, with the annual increase not to exceed 5% of the benefit nor 60% of the current base salary of a probationary officer. Members retired prior to July 1, 1991, who are at least age 55 and have been retired a minimum of five years, may be eligible for an annual lump sum payment distributed in September. This lump sum payment is funded by a registration fee of 25 cents per vehicle registration. The average payment in fiscal year 2001 was \$2,162. This enhancement is limited to non-GABA members.

JRS - Judges Retirement System - This system, established in 1967 and governed by Title 19, chapters 2 & 5 of the MCA, provides retirement benefits for all district court judges, justices of the Supreme Court, and the Chief Water Judge. Members contribute 7% of their salaries and the State contributes 25.81% of active judges' salaries. Rights are vested after five years of membership service. For benefit eligibility, minimum service is five years and the minimum age is 65. The monthly retirement benefit formula is 3 1/3% per year of the member's highest average compensation for the first 15 years of credited service, plus 1.785% per year for each year of credited service after 15

years. For non-GABA members, the percentages are based on the member's current salary, instead of the highest average compensation.

(2) State as an Employer Contributor to Cost-Sharing Multiple-Employer Systems

PERS - Public Employees Retirement System - This mandatory system, established in 1945 and governed by Title 19, chapters 2 & 3 of the MCA, provides retirement benefits to substantially all public employees not covered by another public system. Member contributions were 6.9% of covered compensation for fiscal year 2001. Each state agency and university system employer contributed 6.9% of PERS covered payroll during fiscal year 2001. Participating local governments and school district employers contributed 6.8% of PERS covered payroll. The State contributed 0.1% for local governments and school district employers from the State General Fund. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking the greater of: (1) 2% times the number of years of service times the highest average compensation times any early retirement reduction if necessary or (2) a monthly annuity that is the actuarial equivalent of twice the member's accumulated regular contributions plus interest earned. Members' rights are vested after five years of membership service.

TRS - Teachers Retirement System - This mandatory system, established in 1937 and governed by Title 19, chapter 20 of the MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system. Member and employer contributions are 7.15% and 7.47%, respectively, of earned compensation. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for annual benefits is 1.6667% times creditable service years times the average final compensation. Rights are vested after five years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Effective January 1, 1988, university system employees eligible to participate in the Teachers Retirement System could elect to participate in an Optional Retirement Plan established by the Board of Regents. A supplemental employer contribution to TRS is required to be amortized by July 1, 2033, the amount that would not be paid for by contributions of university system members. The fiscal year 2001 contribution percentage of the total compensation of employees participating in the ORP program is 3.73% and the contribution was \$3.5 million. The unfunded actuarial accrued liability of \$404.5 million is included in the Schedules of Funding Progress.

SRS - Sheriffs Retirement System - This system, established in 1975 and governed by Title 19, chapters 2 & 7 of the MCA, covers all sheriffs and State Department of Justice investigators hired after July 1, 1993. The member contribution is 9.245% of salary; the employer contribution is 9.535% of salary. Minimum years of service for normal service retirement eligibility are 20. The service retirement benefit is calculated at 2.5% of the highest average compensation for each year of membership service. Reduced benefits for early retirement may be taken with a minimum of five years of service and a minimum age of 50. Rights are vested after five years of membership service.

GWPORS - Game Wardens & Peace Officers Retirement System - This system, established in 1963 and governed by Title 19, chapters 2 & 8 of the MCA, provides retirement benefits for all persons employed as a game warden, warden supervisory personnel and state peace officers not eligible to join the SRS, HPORS and MPORS systems. The member contributes 8.5% of salary and the State contributes 9.0% of covered active employee salaries. For benefit eligibility, minimum age is 50 and minimum years of service are 20. If subject to involuntary termination, a member may retire with five years of service at age 55. The yearly retirement benefit formula is 2% times the number of years of service times the highest average compensation. Rights are vested after five years of membership service. PERS members who are hired into a position covered by the GWPORS have 30 days to elect membership in the GWPORS or remain in PERS.

(3) State as a Nonemployer Contributor to Cost-Sharing Multiple-Employer Systems

MPORS - Municipal Police Officers Retirement System - The system, established in 1975 and governed by Title 19, chapters 2 & 9 of the MCA, covers all municipal police officers of cities covered by the plan. It is a cost-sharing plan with a special funding situation. The member contribution is 5.8% of salary for members employed prior to July 1, 1975; 7% of salary for members employed after June 30, 1975, and prior to July 1, 1979; 8.5% of salary for members employed after June 30, 1979 and prior to July 1, 1997; and 9% for members hired on or after July 1, 1997 and members electing GABA. City contributions are 14.41% of active police officers' salaries. The State contributes 29.37% of active police officers' salaries. The State's contribution is funded from the General Fund. Rights are vested after five years of membership service. Minimum years of service are five for benefit eligibility at age 50, or 20 years of service at any age. The service retirement benefit is 2.5% times the number of years of service times the final average compensation. For non-GABA members, a minimum benefit adjustment is required to insure that the retired members benefit is not less than one-half of the compensation paid to newly confirmed police officers in the city that last employed the member.

FURS - Firefighters Unified Retirement System - This system, established in 1981 and governed by Title 19, chapters 2 & 13 of the MCA, provides retirement benefits for firefighters employed by first and second class cities and other cities that wish to adopt the plan. It is a cost-sharing plan with a special funding situation. The member contribution is 9.5% of compensation for members hired prior to July 1, 1997, and 10.7% for new hires after June 30, 1997, and for

members electing GABA coverage. City contributions are 14.36% of total annual compensation. The State contribution is 32.61% of total annual compensation for all firefighters and is paid out of the General Fund. Minimum eligibility is 20 years regardless of age. For members not electing GABA and hired prior to July 1, 1981, monthly retirement benefit is 50% of final average compensation plus 2% per year for each year in excess of 20 years, or 2.5% of final average compensation per year. Members hired before July 1, 1981, with less than 20 years, receive a retirement benefit of 2% per year of service. Members electing GABA and hired after July 1, 1981, receive 2.5% per year of service. Post-retirement benefits, for non-GABA members, require that each retiree receive at least 50% of the salary paid a newly confirmed active firefighter. Rights are vested after five years of membership service.

(4) State as a Nonemployer Contributor

VFCA - Volunteer Firefighters Compensation Act - This compensation program, established in 1965 and governed by Title 19, chapter 17 of the MCA, provides medical benefits and pension, disability and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the state. VFCA is a plan with a special funding situation. The State contribution is 5% of fire insurance premium taxes collected. Rights are vested after ten years of qualified service. Eligibility requirements are 55 years of age and 20 years qualified service for a full benefit or 60 years of age and a minimum of 10 years qualified service for a partial benefit.

C. Summary of Significant Accounting Policies

The defined benefit plans' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

D. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments for the retirement systems. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on a discounted cash flow. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services. The retirement systems have no investments of any commercial or industrial organization whose fair value equals 5% or more of the retirement systems net assets available for benefits.

E. Long-Term Contracts for Contributions

The Public Employees Retirement System has outstanding contributions for early retirement programs:

The 1993 Montana Legislature enacted House Bill 517--Retirement Incentive Program (RIP) providing PERS members (eligible for a service retirement) an incentive to terminate between June 25, 1993, and December 31, 1993. Local government employers participated through election on or before June 1, 1993. The employer purchased, on the members behalf, one year of additional service for each five years of qualified service ("1 for 5"), up to a maximum of three years, for any retirement eligible member who terminated employment during the defined time period. A total of 898 members took advantage of the program (630 from 32 state agencies, 95 from 6 universities, and 173 from 48 local government agencies).

The Montana Legislature also provided a new provision of the Employee Protection Act (EPA) (19-2-706, MCA) allowing State employees (eligible for a service retirement) whose positions have been eliminated to have their employer purchase up to three years of "1 for 5" additional service. As of June 30, 2001, 238 employees have taken advantage of the provision.

The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received (including interest) during fiscal year 2001 totaled \$228,442. June 30, 2001, outstanding balances were \$445,814.

F. Actuarial Data

Actuarial valuations are performed every two years. Hendrickson, Miller & Associates Inc., Helena, MT, prepared the actuarial reports for the retirement systems, excluding TRS, before July 1, 1998. Employee Benefit Resources, LLP, of Helena, MT, prepared the July 1, 1998, actuarial reports for the retirement systems, excluding TRS. Milliman & Robertson, Inc., of Seattle, WA., performed the actuarial valuation for TRS for July 1, 1998, and July 1, 2000. Milliman & Robertson of Portland, OR. prepared the July 1, 2000, actuarial reports for the retirement systems, excluding TRS.

G. Funding Policy and Annual Pension Cost

The following tables provide information concerning funding policies and annual pension costs (in thousands):

Single Employer Systems

	HPORS	JRS
Annual pension cost	\$3,006	\$944
Contributions		
Employer	\$1,925	\$944
Employee	712	256
License and Registration fees	1,052	-0-
Actuarial valuation date	7/01/00	7/01/00
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of total salaries, open	Level percentage of total salaries, open
Remaining amortization period	30 years	30 years
Asset valuation method	4 year smoothed market	4 year smoothed market
Actuarial Assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases (includes inflation factor)	4.5%	4.5%
Merit	0%-7.3%	None
Postretirement benefit increases	None	None

Single Employer Systems

Year Ended	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Obligation
HPORS			
06/30/99	\$2,602	99.7%	NONE
06/30/00	2,824	99.5%	NONE
06/30/01	3,006	101.6%	NONE
JRS			
06/30/99	\$ 823	100.0%	NONE
06/30/00	899	100.0%	NONE
06/30/01	944	100.0%	NONE

Multiple Employer Systems

Year Ended	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Obligation
PERS			
06/30/99	\$47,125	101.6%	NONE
06/30/00	47,695	98.7%	NONE
06/30/01	52,843	100.7%	NONE
MPORS			
06/30/99	\$ 8,297	98.8%	NONE
06/30/00	8,866	100.6%	NONE
06/30/01	9,149	100.1%	NONE
FURS			
06/30/99	\$ 7,401	99.4%	NONE
06/30/00	7,773	97.8%	NONE
06/30/01	7,854	98.6%	NONE
SRS			
06/30/99	\$ 1,995	104.4%	NONE
06/30/00	2,056	106.8%	NONE
06/30/01	2,159	101.9%	NONE
GWPORS			
06/30/99	\$ 892	104.4%	NONE
06/30/00	1,069	102.9%	NONE
06/30/01	1,339	101.9%	NONE
TRS			
06/30/99	\$44,987	100.0%	NONE
06/30/00	48,376	100.0%	NONE
06/30/01	51,524	100.0%	NONE

H. Schedules of Funding Progress

Single Employer Systems

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
HPORS						
07/01/96	\$47,325	\$67,709	\$ 20,384	69.90%	\$6,242	326.57%
07/01/98	59,531	78,722	19,191	75.62%	6,201	309.48%
07/01/00	77,810	76,397	(1,413)	101.85%	6,952	(20.33)%
JRS						
07/01/96	\$24,944	\$27,723	\$ 2,779	89.98%	\$2,907	95.61%
07/01/98	31,646	29,017	(2,629)	109.06%	3,144	(83.62)%
07/01/00	42,043	27,365	(14,678)	153.64%	3,483	(421.42)%

Multiple Employer Systems

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
PERS						
07/01/96	\$1,629,706	\$1,826,207	\$ 196,500	89.24%	\$608,592	32.29%
07/01/98*	2,128,065	2,300,328	172,263	92.51%	660,579	26.08%
07/01/00	2,843,347	2,273,407	(569,940)	125.07%	725,692	(78.54)%
MPORS						
07/01/96	\$ 70,068	\$ 105,664	\$ 35,596	66.31%	\$ 15,828	224.90%
07/01/98	94,908	173,642	78,734	54.66%	17,873	440.52%
07/01/00	129,826	181,109	51,283	71.68%	20,252	253.22%
FURS						
07/01/96	\$ 67,745	\$ 131,111	\$ 63,366	51.67%	\$ 13,783	459.75%
07/01/98	89,988	169,006	79,018	53.25%	15,104	523.15%
07/01/00	123,492	162,329	38,837	76.08%	16,547	235.00%
SRS						
07/01/96	\$ 68,647	\$ 52,751	\$ (15,895)	130.13%	\$ 17,890	(88.85)%
07/01/98	92,160	81,077	(11,083)	113.67%	20,127	(55.06)%
07/01/00	126,338	87,836	(38,502)	143.83%	21,559	(178.59)%
GWPORS						
07/01/96	\$ 18,160	\$ 17,325	\$ (835)	104.82%	\$ 2,762	(30.23)%
07/01/98	23,190	22,412	(778)	103.47%	7,839	(9.92)%
07/01/00	32,966	23,922	(9,044)	137.81%	11,875	(76.00)%
TRS						
07/01/96	\$1,376,716	\$1,939,569	\$562,853	71.0%	\$501,516	112.2%
07/01/98*	1,809,037	2,342,690	533,653	77.2%	529,795	100.7%
07/01/00	2,247,500	2,648,300	400,800	84.9%	537,500	74.6%

* PERS July 1, 1998 results adjusted by actuary.

** TRS July 1, 1998 results adjusted for 1.5% guaranteed annual benefit adjustment and \$500 minimum benefit for legislation which passed in April 1999 and the new salary scale adopted in November 1998.

Nonemployer Contributor

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
VFCA						
07/01/96	\$11,504	\$16,636	\$ 5,132	\$ 69.15%	N/A	N/A
07/01/98	13,941	18,354	4,413	75.96%	N/A	N/A
07/01/00	17,769	16,752	(1,017)	106.07%	N/A	N/A

7. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, Retirement Systems, the following postemployment benefits are provided:

The State provides 18 to 36 months optional postemployment health care benefits in accordance with Public Law 99-272, known as the Consolidated Omnibus Budget Reconciliation Act (COBRA) to the following employees and

dependents who elect to continue and pay administratively established premiums: (1) employees who are covered by the State Group Benefits Plan at the time they discontinue State employment and (2) spouses or other dependents who lose dependent eligibility. At June 30, 2001, 80 certificate holders were receiving these benefits.

In accordance with section 2-18-704, MCA, the State also provides optional postemployment health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement system (See Note 6). Administratively established retiree medical premiums vary between \$152 and \$384 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$23.60 and \$41.60 depending on the coverage selected. The State acts as secondary payor for retired Medicare-eligible claimants. As of June 30, 2001, 3,156 retirees were covered for health care benefits.

The State reimburses all validated medical claims less member obligations (annual deductibles and co-insurance of the members selected medical plan). Dental claims are reimbursed at 50% to 100% depending on the services provided. The State funds claims on a pay-as-you-go basis. During the fiscal year, expenditures of \$15,191,516 were recognized for postemployment health care benefits. Premium contributions received from former employees amounted to \$10,730,566 leaving \$4,460,950 of claims paid in excess of premium revenue received by the State.

In accordance with section 2-18-702, MCA, the Montana University System (MUS) provides postretirement health insurance benefits to eligible employees who receive a retirement benefit from the Teachers Retirement System, Public Employees Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the MUS at least 5 years. Spouses, unmarried dependent children, and surviving spouses are also eligible. Administratively established premiums vary between \$158 and \$462 per month and are revised annually. Medicare eligible plan members are assumed to be Medicare insured. After an annual \$500 deductible for non-Medicare eligible retirees, the MUS plan reimburses 75% of the first \$8,000 in medical claims and 100% thereafter. After a \$350 deductible for Medicare eligible retirees, the plan reimburses 75% for the first \$4,000 in medical claims and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2001, 1,413 retirees were enrolled in the MUS plan. Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 2001, estimated expenditures of \$5,732,982 were recognized for postemployment health care benefits. Of this amount \$3,678,009 was paid by retirees through premiums and the balance of \$2,054,973 was paid by the MUS.

8. DEFERRED COMPENSATION PLAN

The administration of the State of Montana Deferred Compensation Program was transferred to the PERB effective July 1, 1999. The Deferred Compensation plan is a voluntary, tax-deferred retirement plan designed to supplement State Service Retirement, Social Security and other retirement plans and savings. The State of Montana has offered this plan since 1976. Internal Revenue Service Code (Section 457) and MCA (Title 19, chapter 50) govern the plan. Assets of the deferred compensation plan are required to be held in trusts, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries.

All employees of the State, including the Montana University System and contracting agencies, are eligible to participate. The compensation deferred is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. Participating employees are able to direct their deferrals into two primary investment options; (1) a "fixed" or stable value option which guarantees both principal (the payroll deferrals) and a quarterly rate of earnings; and (2) a "variable" option which currently consists of twenty-three mutual funds, and five lifestyle/profile funds. Participants are allowed to participate in both options and, under the variable option, as many of the offered funds as they choose. As of June 30, 2001, the net assets of the Plan were \$200,280,115.

9. RISK MANAGEMENT

There are two Primary Government public entity risk pools and two Component Unit public entity risk pools that are reported within the Enterprise Fund Type: Primary Government pools include Hail Insurance and Subsequent Injury Funds; Component Unit pools include State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. There are three Primary Government Other Than Public Entity Risk Pools reported within the Internal Service Fund Type: Group Employees Comprehensive Medical and Dental Plan, Montana University System (MUS) Group Benefits Plan, and Property and Casualty Insurance Plans. In all of these funds there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance - Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 1254 policies during the 2001 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency of which there is none.

A claim must be submitted to the State Board of Hail Insurance within fourteen days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain which exceeds 5% destruction by hail.

The fund recorded a liability of \$519,789 based on estimated claims through June 30, 2001. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Subsequent Injury - This fund provides benefits to workers, certified as disabled at the time of hiring, who are subsequently injured on the job and entitled to benefits under the Workers Compensation or Occupational Disease Act at the time of injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104 week time period. In Montana, there are 2,773 individuals with certified disabilities.

Workers compensation insurance premium experience modification factors are influenced by the 2-year limitation and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring a person with a certified disability.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed a percentage of their paid losses sufficient to cover paid losses reimbursed from the fund in the preceding calendar year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis (case-by-case) of each injured person with a certified disability. As of June 30, 2001, the amount of this liability was estimated to be \$2,719,490.

(3) State Compensation Insurance (New Fund) - Liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund must insure any employer who desires coverage. At fiscal year-end, approximately 23,915 employers were insured with the New Fund. Montana state governmental agencies must obtain their workers compensation coverage through the New Fund. Anticipated investment income is considered for computing a premium deficiency and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2001, has estimated liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2001, \$325,400,000 of unpaid claims and claim adjustment expenses was presented at face value. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis, and all liability of the New Fund is terminated.

Acquisition costs represent costs associated with the acquisition of new insurance contracts or renewal of existing contracts and include agent commissions and expenses incurred in the underwriting process. New Fund acquisition costs are capitalized and amortized ratably over the subsequent year. The amount of capitalized acquisition costs at June 30, 2000, is \$378,051 and \$170,722 respectively. For the year ended June 30, 2001, \$170,722 of acquisition costs were amortized. There were no acquisition costs amortized for the year ended June 30, 2000.

The New Fund uses reinsurance agreements to reduce its exposure to large losses. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the fund as direct insurer. The New Fund did not deduct any claim liabilities related to potential reinsurance recoverable. Statute requires the New Fund set premiums at least annually at a level sufficient to ensure adequate funding of the insurance program during the period the rates will be in effect. Statute also requires the New Fund to establish a minimum surplus balance of 25% of annual premium revenue.

(4) State Compensation Insurance (Old Fund) - The liability and payment of workers compensation claims for incidents occurring before July 1, 1990 are reported in the Old Fund. Funding for claim payments was accumulated through an Old Fund Liability Tax (OFLT) imposed on employer payroll (0.5%), employee wages (0.2%), and sole proprietor and subchapter S shareholder distributive income. In 1999, the 56th Legislature determined that the fund was adequately funded and discontinued the OFLT. This fund does not compute a premium deficiency.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2001, was used to estimate liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. At June 30, 2001, \$148,476,000 of unpaid claims and claim adjustment expenses was reported at a net present value of \$104,700,000, discounted at a 5.5% rate. Prior to 1999, the unpaid claims and unpaid claim adjustment expenses were presented at face value. Total Old Fund surplus as of June 30, 2001, was \$22,781,565 compared to \$18,559,526 as of June 30, 2000, for a change of \$4,196,558.

(5) Changes in Claims Liabilities For the Past Two Years - As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

Primary Government	Hail Insurance		Subsequent Injury	
	2001	2000	2001	2000
Unpaid claims and claim adjustment expenses at beginning of year	\$ 457	\$ 200	\$2,279	\$2,106
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	2,964	2,275	-	-
Increase (Decrease) in provision for insured events of prior years	396	259	379	406
Total incurred claims and claim adjustment expenses	3,360	2,534	379	406
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	2,841	(1,818)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	456	(459)	61	(233)
Total payment	3,297	(2,277)	61	(233)
Total unpaid claims and claim adjust. exp. at end of the year	\$ 520	\$ 457	\$2,719	\$2,279

Component Units	State Compensation Insurance (New Fund)		State Compensation Insurance (Old Fund)	
	2001	2000	2001	2000
Unpaid claims and claim adjustments expenses at beginning of year	\$314,900	\$303,500	\$167,915	\$185,064
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	75,465	74,445	-	-
Increase (Decrease) in provision for insured events of prior years	(1,667)	(6,049)	(5,503)	(3,728)

Component Units	State Compensation Insurance (New Fund)		State Compensation Insurance (Old Fund)	
	2001	2000	2001	2000
Total incurred claims and claim adjustment expenses	73,798	68,396	(5,503)	(3,728)
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(14,140)	(13,177)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(48,658)	(43,819)	(13,936)	(13,421)
Total payment	(62,798)	(56,996)	(13,936)	(13,421)
Total unpaid claims and claim Adjust. exp. at end of the year	\$325,900	\$314,900	\$148,476	\$167,915

(6) Risk Management Trend Information

The following table only presents risk management trend information for the State Compensation Insurance (New Fund). Only the New Fund has a three to five year development cycle contemplated by GASB Statement 10. The State Compensation Insurance (Old Fund) does not charge a premium for its services. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The table below illustrates how the earned revenues (net of reinsurance) of the New Fund and its investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of the fiscal year (in thousands). Section 3 shows the fund's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest reestimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be expanded and revised as data for successive policy years develops.

	State Compensation Insurance (New Fund)				
	1992	1993	1994	1995	1996
1. Premiums and Investment Revenue					
Earned	\$162,216	\$213,418	\$230,333	\$189,294	\$133,469
Ceded	270	289	318	269	519
Net Earned	\$161,946	\$213,128	\$230,014	\$189,025	\$132,949
2. Unallocated expenses including overhead	\$ 6,588	\$ 7,889	\$ 9,060	\$ 15,131	\$ 18,192
3. Estimated losses and expenses end of accident year					
Incurred	\$183,425	\$186,480	\$199,890	\$164,628	\$ 95,067
Ceded	-	-	-	-	-
Net Incurred	\$183,425	\$186,480	\$199,890	\$164,628	\$ 95,067
4. Net Paid (cumulative) as of:					
End of policy year	\$ 20,244	\$ 18,347	\$ 18,693	\$ 18,137	\$ 15,818
One year later	50,576	46,343	45,947	40,473	32,890
Two years later	68,837	62,717	60,971	52,073	42,361
Three years later	77,950	71,666	67,576	58,722	47,283
Four years later	83,173	76,280	72,212	62,419	50,267

	State Compensation Insurance (New Fund)				
	1992	1993	1994	1995	1996
Five years later	86,461	80,165	75,799	65,919	52,791
Six years later	89,370	82,981	78,306	68,541	
Seven years later	91,903	85,357	80,861		
Eight years later	94,131	88,080			
Nine years later	96,690				

5. Re-estimated ceded losses and expenses	\$ -	\$ -	\$ -	\$ -	\$ 1,328
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	State Compensation Insurance (New Fund)				
	1997	1998	1999	2000	2001
1. Premiums and Investment Revenue					
Earned	\$101,144	\$85,954	\$76,683	\$84,569	\$97,539
Ceded	348	303	260	855	2,952
Net Earned	\$100,796	\$85,651	\$76,422	\$83,714	\$94,587
2. Unallocated expenses including overhead	\$ 13,413	\$15,199	\$20,081	\$23,892	\$29,527
3. Estimated losses and expenses end of accident year					
Incurred	\$ 76,067	\$64,983	\$64,645	\$65,957	\$68,267
Ceded	-	-	838	-	-
Net Incurred	\$ 76,067	\$64,983	\$63,807	\$65,957	\$68,267
4. Net Paid (cumulative) as of:					
End of policy year	\$ 12,589	\$12,943	\$13,723	\$13,177	\$14,140
One year later	28,451	28,222	29,976	29,218	
Two years later	35,706	35,753	39,298		
Three years later	39,860	41,004			
Four years later	43,105				
Five years later					
Six years later					
Seven years later					
Eight years later					
Nine years later					

5. Re-estimated ceded losses and expenses	\$ -	\$ 1,556	\$ 1,116	\$ -	\$ -
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	State Compensation Insurance (New Fund)				
	1992	1993	1994	1995	1996
6. Re-estimated net incurred losses and expense:					
End of policy year	\$183,425	\$186,480	\$199,890	\$164,628	\$ 95,067
One year later	184,968	184,030	184,920	124,123	88,923
Two years later	175,218	167,052	135,472	107,074	77,286
Three years later	161,184	133,017	116,756	95,456	73,864
Four years later	135,775	120,583	107,656	94,517	74,022
Five years later	125,084	111,208	105,052	92,231	73,197
Six years later	119,780	109,415	106,039	91,771	
Seven years later	120,472	111,638	105,668		
Eight years later	120,397	111,084			
Nine years later	119,265				
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	\$ (64,160)	\$ (75,396)	\$ (94,222)	\$ (72,857)	\$(21,870)

	State Compensation Insurance (New Fund)				
	1997	1998	1999	2000	2001
6. Re-estimated net incurred losses and expense:					
End of policy year	\$ 76,067	\$64,983	\$63,807	\$65,957	\$68,267
One year later	67,235	64,308	64,348	66,421	
Two years later	59,054	60,467	66,660		
Three years later	60,811	61,989			
Four years later	64,439				
Five years later					
Six years later					
Seven years later					
Eight years later					
Nine years later					
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	\$ (11,628)	\$ (2,994)	\$ 2,853	\$ 464	\$ -

B. Other Than Public Entity Risk Pools

(1) Group Employee Comprehensive Medical and Dental Plan - This plan is fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents, with the following exceptions. Two plans are covered by outside insured products. The two plans not self-insured by the state are vision care services, which are insured by the Vision Service Plan and medical services covered by the Big Sky Health Plan, an insured community health option (CHO) available to state employees in the Butte, Deer Lodge, Anaconda, and Dillon areas. The state contracts with Blue Cross/Blue Shield for administration of its self-insured plans. Premiums are collected through payroll deductions, deductions through the Public Employees' Retirement Division, and self-payments and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2001, estimates for claims liabilities, which include incurred but not reported claims, were \$7,181,391 based on a formula provided by Buck Consultants, a consulting actuarial firm. A liability is reported in the accompanying financial statements for these estimated claims.

(2) Montana University System (MUS) Group Benefits Plan - This plan was authorized by the Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System, the Student Assistance Foundation (SAF), and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured with three exceptions. The three insured products are HMO's administered by New West Health Services serving some employees and dependents in Missoula, Helena, Havre, and Billings; Big Sky Health Plan serving some employees and dependents in Butte; and a voluntary vision plan administered by VSP serving employees, retirees, and their dependents. Blue Cross/Blue Shield is the claims administrator for the self-insured plan. Managed Care Montana (APS) has a contract for utilization management. The utilization management program consists of hospital pre-authorization, case management and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Internal Service Fund. The claims liability is calculated by Buck Consultants and estimated to be \$2,378,290 as of June 30, 2001, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Property & Casualty Insurance Plans - This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability and State-administered foreclosure housing units. The State self-insures the \$150,000 deductible per occurrence for most property insurance as well as various deductible amounts for other state property. The State also self-insures against losses of property below \$150,000 of value, with State agencies paying the first \$1,000. Commercial property insurance protects approximately \$2.1 billion of State-owned buildings and contents. The State property insurance includes separate earthquake and flood protection coverage (each in the amount of \$100 million) with deductibles of \$1 million for earthquake and \$500,000 for flood per occurrence. Premiums are collected from all State agencies including Component Units and recorded as revenue in the Administration Insurance Internal Service Fund.

An annual actuarial study, prepared by Tillinghast-Towers Perrin Company, and issued for the accident period July 1, 1991, through June 30, 2001, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2001, estimated claims liability of \$25,233,529, is discounted and assumes an annual rate of return of 4%, including those claims incurred but not reported, and is reported in the accompanying financial statements.

(4) Changes in Claims Liabilities For the Past Two Years - These funds establish liabilities for both reported and incurred but not reported claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

	Group Employees Medical & Dental		MUS Group Benefits		Prop. & Casualty Insurance	
	2001	2000	2001	2000	2001	2000
Amount of claims liabilities at the beginning of each fiscal year	\$ 7,080	\$ 6,903	\$ 2,271	\$ 1,878	\$25,347	\$17,100
Incurring claims:						
Provision for insured events of the current year	54,809	48,724	26,007	24,380	6,314	5,784
Increases (Decreases) in provision for insured events of prior years	101	177	107	393	(877)	12,128
Total incurred claims	54,910	48,901	26,114	24,773	5,437	17,912
Payments:						
Claims attributable to insured events of the current year	(50,140)	(48,724)	(26,007)	(24,380)	(1,205)	(1,237)
Claims attributable to insured events of prior years	(4,669)	-	-	-	(4,345)	(8,428)
Total Payments	(54,809)	(48,724)	(26,007)	(24,380)	(5,550)	(9,665)
Total claims liability at end of each fiscal year	\$ 7,181	\$ 7,080	\$ 2,378	\$ 2,271	\$25,234	\$25,347

10. COMMITMENTS

A. Highway Construction - At June 30, 2001, the Department of Transportation had contractual commitments of approximately \$185.2 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

B. Capital Construction - At June 30, 2001, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$22.4 million for capital projects construction. The Primary Government will fund \$22.3 million of these projects with the remaining \$100 thousand coming from higher education funds.

C. Proprietary Fund Commitments - Budgets are administratively established in the Enterprise and Internal Service Funds, excluding depreciation, compensated absences and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unreserved retained earnings in the accompanying financial statements as follows (in thousands):

Primary Government	Amount
<u>Enterprise Funds</u>	
Liquor Warehouse	\$ 59
Historical Society Publications	2
Subtotal-Enterprise Funds	<u>\$ 61</u>
<u>Internal Service Funds</u>	
Highway Equipment	\$2,154
FWP Equipment	64
ISD	604
Bad Debt Division	49
Administration Supply	53
Buildings & Grounds	211
Labor Central Services	37
DEQ Indirect Cost Pool	55
FWP Warehouse Inventory	30
Subtotal-Internal Service Funds	<u>\$3,257</u>
Total-Primary Government	<u>\$3,318</u>
<u>Component Units</u>	
State Compensation Ins - New Fund	<u>\$ 13</u>
Total-Proprietary Fund Types-Reporting Entity	<u>\$3,331</u>

11. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected that in the normal course of operations most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases - Changes in capitalized leases/installment purchases are as follows (in thousands):

Primary Government	Balance July 1, 2000	Additions (Deductions)	Balance June 30, 2001
General Long-Term Obligations	\$3,001	\$ (661)*	\$2,340
Proprietary Fund Types			
Enterprise Fund	\$ -	\$ -	\$ -
Internal Service Fund	2,871	(220)	2,650
Total Proprietary	2,871	(220)	2,650
Total-Primary Government	<u>\$5,872</u>	<u>\$ (881)</u>	<u>\$4,990</u>
Component Units			
State Fund	\$ 42	\$ (7)	\$ 34
Pension Trust Fund	2,159	(1,589)	570
Higher Education Funds	1,386	(141)	1,245
Total-Component Units	<u>\$3,587</u>	<u>\$(1,737)</u>	<u>\$1,849</u>
Total Capitalized Leases/ Installment Purchases	<u>\$9,459</u>	<u>\$(2,618)</u>	<u>\$6,839</u>

*This amount consists of \$265,000 of additions as inceptions; \$3,000 of additions as adjustments; and \$(929,000) as deductions.

Future minimum lease payments under capital leases/installment purchases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government		Component Units			Total
	General Long-Term Obligations	Proprietary Fund Type Internal Service	State Fund	Pension	Higher Education Funds	
2002	\$ 929	\$1,552	\$11	\$578	\$ 536	\$ 3,606
2003	632	961	11	-	476	2,080
2004	531	289	11	-	198	1,029
2005	49	1	11	-	92	153
2006	34	-	-	-	58	92
2007+	353	-	-	-	-	353
Total minimum pmts	\$2,528	\$2,803	\$44	\$578	\$1,360	\$ 7,313
Less: Interest	188	152	9	8	115	472
Present value of minimum payments	<u>\$2,340</u>	<u>\$2,651</u>	<u>\$35</u>	<u>\$570</u>	<u>\$1,245</u>	<u>\$ 6,841</u>

B. Operating Leases - Total rental payments of primary government and component units for operating leases in fiscal year 2001 were \$9,515,000 and \$698,000, respectively. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Component Units	Total
2002	\$ 9,305	\$ 430	\$ 9,735
2003	7,059	227	7,286
2004	5,858	175	6,033
2005	5,508	160	5,668
2006	4,419	16	4,435
2007+	22,261	6	22,267
Total future rental payments	<u>\$54,410</u>	<u>\$1,014</u>	<u>\$55,424</u>

12. STATE DEBT

A. General Information - The State has no constitutional limit on its power to issue obligations or incur debt other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-Term Debt - The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued.

The Board of Investments (BOI) of the State of Montana is authorized to issue Municipal Finance Consolidation Act Bonds which may not aggregate more than \$75 million. The purpose of the bonds is to provide funds for the BOI to make loans to eligible local government units. The bonds are not in any way a debt or liability of the State of Montana. The bonds are limited obligations of the BOI payable solely from repayments of principal and interest on loans made by the BOI to participating local government units, investment income under the indenture and an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the Trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and have been classified as short-term debt. The amounts issued and outstanding at June 30, 2001, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2001
1992	\$ 6,500	\$ 6,150
1994	7,500	7,080
1995	7,500	7,225
1997	10,000	9,850
1998	12,500	12,375
2000	15,000	15,000
Total		<u>\$57,680</u>

C. Long-Term Debt - The full faith, credit and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue bonds and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees and assets of the State and the various colleges and universities. Long-term debt (excluding bonds/notes of Enterprise Funds and Internal Service Funds discussed elsewhere in this footnote; Leases - Note 11 and Compensated Absences - Note 1) of the State at June 30, 2001, was as follows (in thousands):

General Obligation Debt	Series	Amount Issued	Interest Range (%)	Principal Payments		Balance June 30, 2001
				FY 2002	In Year of Maturity (9)	
Water Development Program (1)	1989B	\$ 500	8.55	\$ 25	\$ 50 (2010)	\$ 325
Water Development Program (1)	1991A	750	8.0	55	90 (2007)	430
Wastewater Treatment Works	1991B	2,595	6.1-6.8	100	215 (2014)	1,965
GO Refunding	1992	31,330	5.4-6.2	395	390 (2010)	3,870
Energy Conservation Program (2)	1993A	1,500	4.6-4.75	165	180 (2004)	515
Long-Range Bldg Program	1993B	3,185	4.1-4.25	275	310 (2004)	875
Renewable Resource Development (1)	1993C	750	5.4-5.65	85	95 (2004)	270
Long-Range Bldg Program	1994A	22,540	4.2-6.0	965	1,725 (2014)	16,895
Wastewater Treatment Works	1994B	2,200	5.0-6.1	80	180 (2016)	1,845
Long-Range Bldg Program	1994C	21,955	5.125-5.4	855	1,000 (2005)	3,705
Energy Conservation Program (2)	1994D	1,600	5.2-5.5	170	200 (2005)	740

General Obligation Debt	Series	Amount Issued	Interest Range (%)	Principal Payments		Balance June 30, 2001
				FY 2002	In Year of Maturity (9)	
Renewable Resource Development (1)	1994E	750	7.8-8.1	80	105 (2005)	370
Energy Conservation Program (2)	1996A	1,650	4.05-4.4	165	195 (2006)	895
Renewable Resource Development (1)	1996B	1,250	5.8-6.1	125	155 (2006)	695
Wastewater Treatment Works	1996C	2,765	4.7-5.75	115	120 (2017)	2,400
Long-Range Bldg Program	1996D	30,075	5.25-6.0	1,100	2,370 (2017)	26,180
Renewable Resource Development (1)	1996E	1,000	6.95-7.75	95	130 (2007)	675
Renewable Resource Development (1)	1997A	2,000	6.8-7.4	95	210 (2013)	1,745
Long-Range Bldg Program	1997B	12,640	4.6-5.0	725	595 (2018)	10,615
Wastewater Treatment Works	1998A	3,510	4.0-5.15	125	260 (2019)	3,275
Long-Range Bldg Program	1998B	34,545	3.85-4.85	1,270	2,555 (2018)	30,945
Information Technology	1998C	41,390	4.5-5.0	5,770	4,075 (2008)	28,035
Long-Range Bldg Program	1998D	14,855	4.4-5.0	95	1,720 (2015)	14,460
Energy Conservation Program (2)	1998E	1,250	4.15-4.6	115	150 (2008)	915
Renewable Res. Prgm Loans-Taxable	1999	1,035	6.0-6.5	45	105 (2015)	990
Long-Range Bldg Program	1999C	16,990	4.0-5.0	595	1,250 (2019)	15,640
Drinking Revolving Fund (12)	1998F	3,065	3.65-4.85	115	230 (2019)	2,955
Renewable Resource Development (1)	2000	1,476	4.0	52	106 (2020)	1,426
Drinking Water Revolving Fund (12)	2000A	2,990	4.25-5.6	90	240 (2021)	2,990
Pollution Control Revolving Fund (12)	2000B	3,325	4.25-5.6	100	270 (2021)	3,325
Long-Range Bldg Program	2000C	17,195	5.0-5.55	480	1,320 (2020)	15,920
Information Technology	2000D	18,000	5.0	1,210	2,250 (2010)	16,040
Information Technology	2000E	800	5.6	250	270 (2003)	520
Renewable Resource Development (1)	2000F	1,584	4.0	89	56 (2003)	1,541
Renewable Resource Development (1)	2001A	1,400	4.0	99	55 (2013)	1,400
Long-Range Bldg Program	2001B	11,430	4.1-5.75	790	830 (2021)	11,430
Information Technology	2001C	1,600	3.85-4.2	180	185 (2011)	1,600
Energy Conservation Program	2001D	1,250	3.85-4.2	145	145 (2011)	1,250
Renewable Resource Development (1)	2001E	1,040	5.2-6.8		105 (2017)	1,040
Renewable Resource Development (1)	2001F	145	4.0	37	32 (2004)	145
Drinking Revolving Fund (12)	2001G	3,190	4.0-4.75		235 (2022)	3,190
Pollution Control Revolving Fund (12)	2001H	2,690	4.0-4.75		200 (2022)	2,690
Total General Obligation Debt		<u>\$325,790</u>		<u>\$17,322</u>		<u>\$236,732</u>
Special Revenue Bonds						
Water Conservation (3)	-	\$ 50	5.0	\$ 2	\$ 1 (2012)	\$ 23
Broadwater Power Project (4)(6)	1990A	3,800	9.5	430	430 (2002)	430
Broadwater Power Project (4)(5)	1991A	21,735	6.4-6.875	-	2,135 (2018)	21,735
Water Development Program (4)	1992A	11,955	5.6-6.1	990	770 (2006)	5,100
Water Development Program (4)	1992B	9,375	5.3-6.0	395	795 (2013)	6,840
Department of Transportation	1993	72,375	5.0-5.05	12,470	3,705 (2004)	29,270
Renewable Resource Program (4)	1996A	14,985	4.35-5.2	1,055	110 (2017)	10,285
Renewable Resource Program (4)	1997A	1,205	6.5-7.3	35	110 (2017)	1,110
Renewable Resource Program (4)	1997B	2,660	4.4-5.375	90	210 (2017)	2,410
Developmental Center Project (8)	1994	13,100	5.4-6.4	370	1,015 (2019)	11,425
State Hospital Project (8)	1997	25,915	4.15-5.0	710	1,820 (2022)	24,580
Renewable Resource Program (4)	2001A	420	3.65-5.59	15	30 (2021)	420
Renewable Resource Program (4)	2001B	1,750	5.2-7.1	45	150 (2021)	1,750
Total Special Revenue Bonds		<u>\$179,325</u>		<u>\$16,607</u>		<u>\$115,378</u>
Middle Creek Dam Project (7)		\$ 2,990	8.125	\$ 37	124 (2034)	\$ 3,019
Tongue River Dam Project (11)		11,300	-	285	290 (2039)	10,715
Dept. of Justice INTERCAP Loan (10)		500	Variable	50	50 (2007)	300
Dept. Of Environmental Quality INTERCAP Loan (10)		1,212	Variable	115	75 (2008)	851
Dept. Of Corrections Resident Accounting System Loan (13)		320	5.73	60	71 (2005)	263
Office of the Commissioner of Higher Education INTERCAP Loan (10)		215	Variable	50	58 (2005)	215
Natural Resrce. Damage Lit. Pgm. (14)		1,517	-	-	-	1,517

Special Revenue Bonds	Series	Amount Issued	Interest Range (%)	Principal Payments		Balance June 30, 2001
				FY 2002	In Year of Maturity (9)	
Total Notes Payable		<u>\$ 18,054</u>		<u>\$ 597</u>		<u>\$ 16,880</u>
Total Special Revenue Debt						<u>\$368,990</u>

- (1) All Water Development Program Bonds and the Renewable Resource Development Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. Series 1989B, 1991A and 1993C bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.
- (2) Bonds issued for financing the design, construction and installation of energy conservation projects at various State buildings.
- (3) Bonds sold to Farmers Home Administration.
- (4) Issued by the Department of Natural Resources and Conservation (DNRC) and backed by a pledge of coal severance taxes and project revenues.
- (5) First payment of \$795,000 is due in 2003.
- (6) Bonds were sold to the Montana Board of Investments.
- (7) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes \$251,160 of interest owed.
- (8) Montana Health Facility Authority Loan to the Department of Public Health and Human Services for the Montana Developmental Center Project and the Montana State Hospital Project.
- (9) Year of maturity refers to fiscal year.
- (10) Montana Board of Investments loans to Departments from the INTERCAP loan program.
- (11) Northern Cheyenne Tribe loan to the Montana Dept. of Natural Resources & Conservation (DNRC). The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.
- (12) Provide matching funds to enable the State to obtain capitalization grants from the U.S Environmental Protection Agency for water system development loans to state political subdivisions.
- (13) Norwest loan to provide funds for the development of a Y2K compliant resident accounting system.
- (14) Board of Investments loan to the Department of Justice for the Natural Resource Damage Litigation Program. Loan repayment is secured by a pledge of amounts to be recovered in the ongoing litigation with Atlantic Richfield Company.

**Board of Regents Issues
Higher Education Units-
Component Unit**

	Series	Amount Issued	Interest Range (%)	Principal Payments		Balance June 30, 2001
				FY 2002	In Year of Maturity	
University of Montana-Missoula (U of M)	1993A/1998E 1999F	\$110,816	4.1-5.8	\$2,399	\$ 760 (2026)	\$ 99,098
Montana State University-Bozeman (MSU)	1987A/1993A 1996D/1996B					
	1998E/1998F	87,677	4.0-8.0	3,220	5,590 (2022)	74,347
Montana Tech of the U of M	1995C/1998E 1999F	17,208	4.1-5.75	395	932 (2024)	12,620
MSU – Billings	1996D/1998F	18,955	4.0-5.625	585	1,070 (2026)	16,610
MSU – Northern	1994C/1998F	3,450	4.0-6.0	185	100 (2015)	2,600
Western Montana College of the U of M (WMC)	1993A/1998E 1999F	7,846	4.1-5.75	95	858 (2024)	7,313
Helena College of Technology of the University of Montana (HCT)	1999F	<u>757</u>	4.3-5.75	<u>5</u>	85 (2024)	<u>743</u>
		<u>\$246,709</u>		<u>\$6,884</u>		<u>\$213,331</u>
Add: Unamortized Premium						17
Less: Unamortized Discount						<u>(2,164)</u>
Total Higher Education Bonded Debt						<u>\$211,184</u>

**Board of Regents Issues
Higher Education Units-
Component Unit**

Board of Regents Issues Higher Education Units- Component Unit	Series	Amount Issued	Interest Range (%)	Principal Payments		Balance June 30, 2001
				FY 2002	In Year of Maturity	
Higher Ed Nonbonded Debt						
U of M - Missoula, INTERCAP Program Note		1,486	Variable	214	2 (2011)	1,090
U of M - First Interstate Mortgage		281	8.5	8	28 (2017)	255
U of M -Montana College of Technology INTERCAP Program Note		559	Variable	117	31 (2007)	468
U of M – Western, Stadium Loan		162	6.28	24	28 (2004)	78
MSU - Bozeman, INTERCAP Program Note		2,538	Variable	424	9 (2010)	2,306
MSU - Bozeman, Information Tech Center		58	5.31-5.54	20	20 (2002)	20
MSU - Bozeman, Media & Theater Arts		44	5.63	10	10 (2002)	10
MSU - Bozeman, Renne Library		277	5.28-5.34	74	33 (2003)	107
MSU - Bozeman, University Relations		5	6.24	2	2 (2002)	2
MSU - Bozeman, Burns Center		32	6.28	11	11 (2002)	11
MSU - Bozeman, Call Center		69	5.34	23	23 (2002)	23
MSU – Bozeman, Network Electronic Switching		338		80	90 (2005)	338
MSU - Billings, INTERCAP Program Note		391	Variable	35	7 (2010)	325
MSU - Billings, Athletic Note		20	8.7	5	6 (2003)	11
MSU - Yucca Escrow		85	7.75	19	7 (2005)	69
MSU - Northern, INTERCAP Program Note		1,560	Variable	179	10 (2011)	958
MSU - Northern, Athletic Van Note		13	6.5	2	2 (2005)	9
MSU - Northern, Voice Mail Note		49	6.5	17	18 (2003)	35
MSU - Northern, Student Services Loan		24	6.5	4	5 (2005)	19
MSU - College of Technology, Great Falls INTERCAP Program Note		90	Variable	50	26 (2003)	77
Total Higher Education Nonbonded Debt		<u>\$ 8,081</u>		<u>\$1,318</u>		<u>\$ 6,211</u>
Total Higher Education Funds						\$217,395

Debt service requirements (principal and interest) for long-term notes/bonds payable reported in the General Long-Term Obligations Account Group and Higher Education Funds are as follows (in thousands):

Fiscal Year Ending June 30	General Obligation Debt	Special Revenue Bonds	Higher Ed Bonded Debt	Non- Bonded Debt	Total Requirements
2002	\$ 27,288	\$ 22,617	\$ 17,592	\$ 2,511	\$ 70,008
2003	26,849	22,894	17,573	1,846	69,162
2004	25,604	13,079	17,644	1,631	57,958
2005	24,885	9,269	17,654	1,422	53,230
2006	24,497	8,802	17,446	1,136	51,881
2007+	200,984	89,102	280,452	15,150	585,688
Total	<u>\$330,107</u>	<u>\$165,763</u>	<u>\$368,361</u>	<u>\$23,696</u>	<u>\$887,927</u>

A summary of changes in long-term liabilities payable reported in the General Long-Term Obligations Account Group for the fiscal year ending June 30, 2001, was as follows (in thousands):

	Balance July 1, 2000	Additions(1)	Reductions	Balance June 30, 2001
Early Retirement Benefits	\$ 227	\$ 195	\$ 83	\$ 339
Arbitrage Rebate Tax	1,025	400	-	1,425
General Obligation Debt	228,269	24,511	16,048	236,732
Special Revenue Debt	146,354	3,372	17,720	132,006
Total	<u>\$375,875</u>	<u>\$28,478</u>	<u>\$33,851</u>	<u>\$370,502</u>

(1) Loan and Bond Proceed amounts recorded in the financial statements for General Obligation and Special Revenue Debt include the effects of bond discounts and premiums. The additions in long-term debt include new issues of bonds and loans with a face value of \$27,883,382 that were issued at par.

D. Early Retirement Benefits Note - The 1993 Montana State Legislature granted an early retirement incentive. The incentive consisted of an additional three years of employer and employee contributions paid by the employer agency to the State of Montana Public Employees Retirement System. The payments may be made over a period of time not to exceed ten years at an interest rate of 8%. Debt Service requirements are as follows (in thousands):

	Principal Payments		Balance June 30, 2001
	FY 2002	In Year of Maturity	
Primary Government:			
General Obligation Debt	\$49	\$ 7	\$339
Component Unit:			
Higher Education Units	8	10	26
Total	\$57	\$17	\$365

E. Refunded and Early Retired Bonds

During fiscal year 2001, the Department of Natural Resources and Conservation (DNRC) used current available resources to pre-pay \$75,000 of Series 1990A Water Development Program Revenue Bonds and \$230,000 of Series 1992A Water Development Program Revenue Bonds.

During fiscal year 2001, the Montana Board of Housing issued \$142,940,000 of Single Family bonds. Series 2000B was issued on September 14, 2000 in the amount of \$71,940,000 and Series 2001A was issued on May 31, 2001, in the amount of \$71,000,000. In conjunction with the issuance of the 2000B bonds, the Board refunded the 1990C bond issue on October 1, 2000. Single Family bond issue Series 2001A refunded the 1991A and 1991B bond issues on July 1, 2001. The Housing Authority deferred \$135,341 of costs related to the refunding of the 1990C, 1991A and 1991B bonds. The refunding of the 1990C bonds resulted in an economic gain of \$737,211 and difference in cash flows of \$498,338.

In prior years, the State of Montana and the Board of Regents of Higher Education have issued general obligation and revenue refunding bonds, the proceeds of which were used to defease certain bond issues already outstanding. The proceeds of the refunding issues were placed in escrow accounts and invested in U.S. Treasury Obligations that, together with interest earned thereon, will be sufficient for future payment of principal and interest on the refunded issues. Accordingly, the debt is considered defeased for financial reporting purposes and the liability for the defeased bonds is not included in the financial statements. At June 30, 2001, in-substance defeased bonds outstanding were as follows (in thousands):

General Obligation	\$10,045
Higher Education Revenue	83,332
Total	\$93,377

F. Proprietary & Pension Funds

(1) Economic Development & Municipal Finance Consolidation Act Bonds (EDB) - This program is directed by the nine-member Board of Investments which is attached to the Department of Commerce for administrative purposes. This program assists Montana's small businesses and local governments in obtaining long-term, fixed rate financing through private Montana lending institutions. Outstanding obligations are as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 2001
				FY 2002	In Year of Maturity	
Municipal Finance Consolidation Act Bonds (Irrigation Program) (a)	1988	\$ 4,976	6.60-7.75	\$ 505	\$ 130 (2014)	\$ 2,618
Municipal Finance Consolidation Act Bonds (School District Pooled Refunding Program) (b)	1991	6,234	4.75-6.5	283	294 (2005)	1,149
Total Bonds Payable		\$11,210		\$ 788		\$ 3,767
Conservation Reserve Enhancement Program (CRP Notes) (c)		10,232	6.50-9.92	1,332	1,608 (2008)	10,232
Total Bonds/Notes Payable		\$21,442		\$2,120		\$13,999

- (a) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds and the interest thereon are payable solely from the collection of a special tax or assessment which is a lien against real property in the Irrigation District. The Irrigation Bonds are not obligations of the State of Montana. However, the Irrigation Bonds are limited obligations of the Board of Investments due to an irrevocable pledge to lend money for deposit by the Trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein on any payment date. The indenture does not permit the issuance of additional bonds.
- (b) These bonds were issued for the purpose of providing funds for the Board of Investments, State of Montana, to purchase the general obligation refunding bonds of participating Montana School Districts. The School District Refunding Bonds and the interest thereon are payable from real property taxes levied within the school district. These bonds are limited obligations of the Board of Investments, and are not a debt or liability of the State of Montana, and neither the faith and credit nor the taxing power of the State is pledged to the payment of principal or interest on the bonds.
- (c) These bonds and notes were issued for the purpose of providing funds for the Board of Investments, State of Montana, to make loans to participating farmers and ranchers under its Conservation Reserve Enhancement Program. The Series 1991 Bonds are not in any way a debt or liability of the State of Montana, and neither the full faith and credit, nor the taxing power of the State of Montana is pledged to the payment of the principal of or interest on the Series 1991 Bonds. However, the 1991 Bonds are limited obligations of the Board of Investments. The Bond Anticipation Notes (BAN), which matured on November 15, 1992, were reissued to correspond with maturities per the underlying loans. On November 15, 1994, eleven BANs were reissued to comply with statutory requirements limiting the maturity of notes to five years from issuance date. The outstanding BANs as of November 15, 1996 were reissued as bonds to comply with statutory requirements. The board now issues CRP bonds for the duration of the CRP contract purchased.

Debt service requirements (principal & interest) for EDB are as follows (in thousands):

2002	2003	2004	2005	2006	2007+	Total
\$3,094	\$3,001	\$2,845	\$2,614	\$2,046	\$4,560	<u>\$18,160</u>

(2) **Internal Service Fund Bonds/Notes Payable** - State agencies may obtain long-term financing for Internal Service Funds through the Board of Investments INTERCAP loan program. Outstanding obligations at June 30, 2001, follow (in thousands):

Department	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 2001
			FY 2002	In Year of Maturity	
Department of Transportation - Motor Pool	<u>\$12,093</u>	4.75%	<u>\$2,438</u>	\$428 (2005)	<u>\$5,718</u>
TOTAL BONDS/NOTES PAYABLE	<u>\$12,093</u>		<u>\$2,438</u>		<u>\$5,718</u>

Debt service requirements (principal & interest) for Internal Service Funds are as follows (in thousands):

2002	2003	2004	2005	2006	2007+	Total
\$2,637	\$1,666	\$1,186	\$428	\$-	\$-	<u>\$5,917</u>

(3) **Pension Trust Fund Bonds/Notes Payable** - State agencies may obtain long-term financing for Pension Trust Funds through the Board of Investments INTERCAP loan program. Outstanding obligations at June 30, 2000, follow (in thousands):

Department	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 2001
			FY 2002	In Year of Maturity	
Public Employees Retirement System (a Component Unit of the State of Montana)	<u>\$670</u>	4.75%	<u>\$-</u>	\$112(2010)	<u>\$670</u>
Total Bonds/Notes Payable	<u>\$670</u>		<u>\$-</u>		<u>\$670</u>

Debt service requirements (principal & interest) for Pension Trust Funds are as follows (in thousands):

2002	2003	2004	2005	2006	2007+	Total
\$-	\$81	\$86	\$90	\$95	\$318	<u>\$670</u>

(4) **Enterprise Fund Notes Payable** - State agencies may obtain long-term financing for Enterprise Funds. Outstanding obligations at June 30, 2001, were as follows (in thousands):

Department	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 2001
			FY 2002	In Year of Maturity	
Montana State Lottery (administered by the Department of Commerce)	\$5,025	5.12	\$1,002	\$1,110 (2004)	\$3,167
Total Bonds/Notes Payable	<u>\$5,025</u>		<u>\$1,002</u>		<u>\$3,167</u>

Debt service requirements (principal & interest) for Enterprise Funds are as follows (in thousands):

2002	2003	2004	2005	2006	2007+	Total
\$1,146	\$1,146	\$1,146	\$-	\$-	\$-	<u>\$3,438</u>

(5) **Board of Housing (BOH) (Housing Authority) - Component Unit - Revenue Bonds** - The Montana Board of Housing is authorized to have an aggregate of \$975 million of housing mortgage bonds outstanding. The bonds are payable from mortgage loan repayments and investment earnings. All bonds issued to date are secured by federally insured or guaranteed mortgages. Statutory provisions exist wherein the Governor shall include in the executive budget submitted to the legislature the sum required to fund possible future deficiencies in required reserves; however, the legislature is not legally required to appropriate funding for such deficiencies. None of the outstanding bonds were issued under these provisions. BOH Revenue Bonds (net) outstanding at June 30, 2001, were as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 2001
				FY 2002	In Year of Maturity	
Single Family I	1997A	\$ 91,360	4.0-6.15	\$ 875	\$ 915 (2038)	\$ 78,210
	1999A	60,000	4.35-5.75	100	1,905 (2032)	56,885
	2000A	87,695	4.15-6.45	260	3,070 (2032)	83,630
	2000B	71,940	4.25-7.59	190	2,650 (2032)	71,355
	2001A	71,000	3.35-5.70	185	1,575 (2003)	71,000
Subtotal		<u>\$ 381,995</u>		<u>\$1,610</u>		<u>\$361,080</u>
Single Family II	1983C	\$ 114,998	5.75-10.7	\$ -	\$ 600 (2010)	\$ 6,590
	1984A	75,002	7.0-11.5	-	5 (2010)	2
	1985A	40,000	5.5-9.75	1,263	4,085 (2016)	5,112
	1985B	74,997	5.7-9.75	-	255 (2011)	2,375
	1992RA	22,520	5.65-6.5	-	10 (2033)	22,520
	1994A	25,725	3.1-6.1	1,280	375 (2025)	9,570
	1994B	40,815	3.8-6.9	835	60 (2008)	3,515
	1994C	20,000	4.5-6.8	50	35 (2027)	1,360
	1995A	33,580	4.75-6.55	315	57(2027)	16,445
	1995B	88,000	4.2-6.4	710	1,420 (2036)	82,315
	1996A	65,000	4.7-6.375	730	1,770 (2029)	47,630
	1998A	51,780	4.0-5.45	770	215 (2031)	47,060
	1998B	65,000	4.65-5.35	920	300 (2031)	61,515
Subtotal		<u>\$ 717,417</u>		<u>\$6,873</u>		<u>\$306,009</u>
Single Family III	1988B1-B2	\$ 25,000	6.0-8.9	\$ 80	\$ 65 (2021)	\$ 1,825
Single Family VIII	1991A1-A2	25,000	5.2-8.275	210	535 (2023)	6,450
Single Family IX	1991B1-B2	25,000	5.5-8.4	220	540 (2023)	6,945
Single Family X	1992A1-A2	25,000	4.45-7.85	315	665 (2024)	9,020

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 2001
				FY 2002	In Year of Maturity	
Multifamily	1978A	4,865	6.125	65	425 (2020)	2,540
	1992A	9,725	2.95-6.55	210	50 (2024)	8,400
	1996A	890	4.10-6.15	15	60 (2027)	830
	1998A	1,625	3.5-5.2	70	40 (2030)	1,495
	1999A	9,860	4.95-8.45	150	425 (2041)	9,791
Subtotal		<u>\$ 26,965</u>		<u>\$ 510</u>		<u>\$ 23,056</u>
Total		<u>\$1,226,377</u>		<u>\$9,818</u>		<u>\$714,385</u>
Add: Deferred amount on refunding						(51)
Add: Unamortized bond premiums						(313)
Total BOH Bonds Payable (net)						<u><u>\$714,021</u></u>

Debt service requirements (principal & interest) for all BOH programs are as follows (in thousands):

2002	2003	2004	2005	2006	2007+	Total
\$51,248	\$53,747	\$55,271	\$54,035	\$53,624	\$1,250,582	<u>\$1,518,507</u>

G. No-Commitment Debt - Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

(1) Montana Board of Investments (BOI) - The BOI is authorized to issue industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. The industrial revenue bonds issued by BOI do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 2001, outstanding industrial revenue bonds were as follows (in thousands):

Project	Date of Issue		Amount Issued	Amount Outstanding
Montana Cenex	August	1985	\$ 3,925	\$ 3,925
Colstrip	October	1989	60,800	60,800
Yellowstone Energy (BGI)	July	1993	118,345	117,845
Stillwater Mining	July	2000	30,000	30,000
Total			<u>\$213,070</u>	<u>\$212,570</u>

(2) Beginning Farm Loan Program - The Montana Department of Agriculture is authorized to request issuance of bonds by the Montana Board of Investments to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 2001, was as follows: Jorgensen Project - issued \$81,600; outstanding \$1,792.

(3) Montana Health Facility Authority (MHFA) - Component Unit - The MHFA is authorized to issue bonds and notes to finance projects for qualifying health institutions. The following obligations issued by MHFA do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 2001, the MHFA had issued bonds and notes as follows (in thousands):

Project	Date of Issue		Amount Issued	Amount Outstanding
West Mont Home Health Services	June	1985	\$ 440	\$ 8
MHFA 1985 Pooled Loan Projects	December	1985	66,900	35,900
Community Provider Pooled Loans	October	1988	1,461	307
Community Provider Pooled Loan	July	1990	5,858	3,368
Deaconess Medical Center (Series A)	February	1991	18,000	17,300
Deaconess Medical Center (Series B)	February	1991	18,000	17,300
Sisters of Providence	May	1991	45,020	4,310
Deaconess Medical Center	September	1991	32,650	25,450
Community Provider Pooled Loans	September	1991	3,944	2,744
Hospital Pooled Loans (1)	August	1992	4,645	1,465
Richland Opportunities	January	1993	200	147
Bozeman Deaconess Foundation	June	1993	14,900	8,355

Project	Date of Issue		Amount Issued	Amount Outstanding
Sisters of Charity	January	1994	50,915	37,590
Deaconess-Billings Clinic	January	1994	58,870	58,870
Residential Support Services	March	1994	50	28
St. Johns Retirement Home	October	1994	2,000	1,805
North Valley Hospital (Series D) (1)	October	1994	1,310	645
Northern MT (1)	October	1995	5,645	4,335
Northern MT	November	1995	6,090	5,285
Toole County Hospital	August	1996	1,635	1,300
Marcus Daily Memorial Hospital	August	1996	1,860	1,485
Glendive Community Hospital	August	1996	1,590	1,270
Mission Ridge	August	1996	17,835	17,835
Community Medical Center-Missoula	August	1996	20,730	19,230
Benefis	September	1996	16,680	9,850
St. Peters Hospital	January	1997	19,875	15,015
Regional Services (Beartooth Industries)	September	1997	260	240
Alternatives, Inc.	November	1997	2,925	2,645
Big Horn	February	1998	1,425	1,285
Lewis & Clark County (Cooney)	February	1998	1,730	1,555
North Valley	February	1998	1,890	1,445
Lewis & Clark County (Clinic)	February	1998	860	770
Sisters of Charity	March	1998	137,800	135,010
Opportunity Resources, Inc.	June	1998	400	364
Kalispell Regional Hospital	August	1998	19,630	17,555
Bozeman Deaconess	August	1998	13,500	12,170
Missoula Correctional (Prerelease)	October	1998	5,580	5,415
Great Falls Prerelease	October	1998	1,300	1,165
Community Medical 99 (Missoula)	January	1999	2,300	1,380
Providence Svc. (St. Pat & Joe)	July	1999	25,025	25,025
Sidney Health Center	August	1999	11,500	11,255
St. Patrick Hospital (GE PP)	December	1999	1,714	1,599
MLP OO – Marcus Daly	March	2000	3,444	3,350
Hillcrest Senior Living	March	2000	17,170	17,170
BSW, Inc. (99)	July	1999	71	45
Powell County Hospital	January	2000	86	65
Mineral Community Health Center	April	2000	24	19
Opportunity Resources	May	2000	493	482
Boyd Andrew (Prerelease)	July	2000	2,245	2,245
Kalispell Regional Med. Ctr.	March	2000	20,550	20,550
Community Medical 01	May	2001	1,092	1,092
Community Medical 01	May	2001	118	118
St. Luke Hospital	February	2001	534	530
Total			\$690,769	\$555,741

(1) The Board of Investments (BOI) and the MHFA have entered into a capital reserve account agreement for certain bond issues. In accordance with the agreement, the BOI irrevocably committed to lend the MHFA funds sufficient to ensure timely payments of principal and interest on the bonds. If necessary, the loans will be made by the BOI from the Coal Severance Tax Permanent Trust Fund, a Trust Fund Bond Pool participant, or any other legally available funds administered by the BOI.

13. INTERFUND TRANSACTIONS

During the course of normal operations, the State has numerous transactions between funds to finance operations, provide services, construct assets, service debt, etc. Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. To the extent that certain transactions between funds are not paid or received as of June 30, 2001, interfund receivables/payables (Due From/To Other Funds) are recorded. The schedule below presents all interfund balances outstanding at June 30, 2001, (in thousands) and interfund activity for the fiscal year then ended:

Within Primary Government and Component Units	Interfund Loans/Advances		Due From Other Funds	Due To Other Funds	Operating Transfers		Residual Equity Transfers	
	Receivable	Payable			In	Out	In	Out
General	\$55,903	\$ -	\$ 43,436	\$ 12,729	\$133,757	\$ 22,412	\$1,065	\$ -
Special Revenue								
State	24,925	12,460	6,838	19,135	44,584	32,354	-	8,213
Federal	505	68,841	3,546	10,604	2,175	45,607	-	-
Debt Service								
Coal Tax Bonds	1,862	-	-	8	1,294	602	-	-
Long-Range Building Program	-	-	-	-	13,976	86	-	-
Water Development	-	-	-	-	4,162	2,044	-	-
Highway Revenue Bonds	-	-	-	-	13,584	-	-	-
Health Care Debt Service	-	-	-	-	2,709	-	-	-
Information Technology Bonds	-	-	-	-	7,921	-	-	-
Capital Projects								
Long-Range Building Program	-	-	540	19	6,991	4,208	-	-
Federal/Private Construction Grts	-	-	-	-	53	-	-	-
Capital Land Grant	-	-	4	28	2,527	500	-	-
Information Technology Project	-	-	-	36	-	1,357	-	-
Enterprise								
Economic Development Bonds	-	-	-	12	-	-	-	-
Liquor Warehouse	75	-	1	5,986	-	19,827	-	-
Hail Insurance	-	-	-	48	-	6	-	-
State Lottery	-	-	2	1,985	-	6,145	-	-
Prison Ranch	128	-	23	46	-	-	-	-
Prison Industries	-	130	113	62	-	-	-	-
Subsequent Injury	-	-	-	31	-	31	-	-
Montana Career Info. Systems	-	-	-	7	-	-	-	-
Sec. of State Business Services	189	-	1	75	-	-	-	-
Historical Soc. Publications	-	-	4	39	54	-	-	-
Surplus Property	-	-	21	48	-	-	-	-
West Yellowstone Airport	-	-	-	4	21	-	-	-
Local Govt. Audits	-	-	-	12	-	-	-	-
Flexible Spending Administration	-	201	164	-	-	-	-	-
Swan River Vocational Training	-	-	-	-	-	-	-	2
Judiciary Law Library	-	-	4	-	-	-	-	-
Internal Service								
Highway Equipment	-	-	18	217	-	-	7,150*	-
Employee Group Benefits	-	-	2,111	67	-	-	-	-
ISD	3	-	2,337	378	-	338	-	-
MUS Group Insurance	-	-	17	8	-	-	-	-
Administration Insurance	-	-	2	124	20	332	-	-
FWP Equipment	-	300	120	4	223	-	-	-
Motor Pool	-	816	496	57	-	-	-	-
Administration Supply	-	-	391	18	-	-	-	-
Publications & Graphics	-	-	370	56	-	-	-	-
Buildings & Grounds	-	-	58	81	-	2	-	-
Labor Central Services	-	-	210	219	-	-	-	-
Commerce Central Services	-	-	141	128	-	-	-	-
DEQ Indirect Cost Pool	-	-	268	88	-	-	-	-
Mail & Messenger	-	-	274	20	-	-	-	-
Payroll Processing	-	-	-	19	-	-	-	-
Warrant Processing	-	7	55	73	-	-	-	-
Investment Division	-	-	37	137	-	-	-	-
Aircraft Operation	-	-	37	18	355	-	-	-
Justice Legal	-	100	96	38	-	-	-	-
OPI Central Services	-	-	325	93	-	-	-	-
Personnel Training	-	-	73	11	-	-	-	-
Records Management	-	190	21	21	-	-	-	-
FWP Office Supply	-	-	4	4	-	-	-	-
Debt Collection/CSC	-	-	349	389	2,812	344	-	-
Administration Legal	-	-	-	4	-	-	-	-
Local Govt. Administration	-	-	6	6	-	-	-	-
State Wide Fueling Network	-	-	-	1	-	-	-	-
Administration DP Unit	-	-	-	4	-	-	-	-

Within Primary Government and Component Units	Interfund Loans/Advances		Due From Other Funds	Due To Other Funds	Operating Transfers		Residual Equity Transfers	
	Receivable	Payable			In	Out	In	Out
Procurement Card Purchases	-	-	1	-	-	-	-	-
<u>Expendable Trusts</u>								
Unemployment Insurance	-	500	-	328	-	-	-	-
Rural Development	-	-	-	4	-	-	-	-
Escheated Property	-	-	-	210	-	544	-	-
Wildlife Mitigation	-	-	-	10	-	76	-	-
Tobacco Settlement	-	-	-	-	71	-	-	-
<u>Nonexpendable Trusts</u>								
Coal Tax Trust	-	-	308	6,089	300	39,291	-	-
Land Grants	-	-	1,111	7,963	216	54,503	-	-
Resource Indemnity	-	-	-	1,278	-	5,817	-	-
Parks Trust	-	-	-	92	-	984	-	-
Cultural Trust	-	-	-	27	-	310	-	-
Real Property	-	-	25	60	-	546	-	-
Noxious Weed Management	-	-	129	721	1,125	611	-	-
Thomas Teakle Trust	-	-	-	-	-	1	-	-
Historical Society Acquisitions	-	-	-	1	-	-	-	-
Tobacco Settlement Interest	-	-	-	-	99	170	-	-
<u>Agency</u>								
Investment Pool	-	-	-	55	-	-	-	-
Performance Deposits	460	-	27	1,023	-	-	-	-
Central Payroll	-	-	-	622	-	-	-	-
Custodial Accounts	-	-	9	164	-	-	-	-
Child Support Collections	-	-	157	-	-	-	-	-
Uncleared Collections	16	-	19,391	12,184	-	-	-	-
Debt Collection/CSC	-	-	2	196	-	-	-	-
<u>Component Units</u>								
<u>Enterprise Funds</u>								
Housing Authority	-	-	-	2	-	-	-	-
Health Facilities Authority	-	-	-	1	-	-	-	-
State Comp. Insurance – New	-	-	1,419	3	6,765	-	-	-
State Comp. Insurance – Old	-	-	1	842	-	6,765	-	-
<u>Expendable Trust Fund</u>								
Employees Deferred Comp.	-	525	40	6	-	-	-	-
<u>Pension Trusts</u>								
Teachers Retirement	-	-	382	1	-	-	-	-
PERS	-	-	680	6	-	-	-	-
Municipal Police	-	-	-	55	-	-	-	-
Firefighters Unified	-	-	-	44	-	-	-	-
Sheriffs	-	-	1	43	-	-	-	-
Highway Patrol	-	-	1	22	-	-	-	-
Judges	-	-	-	5	-	-	-	-
Game Wardens	-	-	5	30	-	-	-	-
Volunteer Firefighters	-	-	-	42	-	-	-	-
<u>Higher Education</u>								
<u>Current Funds</u>								
General Operating	200	505	999	7,674	294	1,895	-	-
Designated	14,637	67	2,681	2,724	3,037	5,473	4	-
Auxiliary	5	67	144	1,541	1,418	13,138	-	-
Restricted	-	14,267	652	7,242	196	447	-	4
<u>Fiduciary</u>								
Student Loans	-	-	104	58	-	8	-	-
Endowments	-	-	-	33	72	3	-	-
Agency	-	-	15,133	1,945	-	-	-	-
<u>Plant</u>								
Unexpended	90	-	371	447	10,821	13,594	-	-
Renewal & Replacement	26	-	851	226	9,163	1,328	-	2
Retirement of Indebtedness	-	-	115	36	15,632	4,728	2	-
Investment in Plant	-	48	-	-	-	-	-	-
Total	\$99,024	\$99,024	\$107,252	\$107,252	\$286,427	\$286,427	\$8,221	\$8,221

* These Residual Equity Transfers are reflected in Contributed Capital on the Balance Sheet.

Between Primary Govt. and Component Units	Due From Comp. Units	Due To Primary Govt.	Due To Comp. Units	Due From Primary Govt.	Transfer From Comp. Units	Transfer To Primary Govt.	Transfer To Comp. Units	Transfer From Primary Govt.
General	\$ 626	\$ -	\$11,814	\$ -	\$ -	\$ -	\$117,745	\$ -
Special Revenue								
State	246	-	1,580	-	115	-	17,148	-
Federal	27	-	1,414	-	-	-	-	-
Debt Service								
Long-Range Building	-	-	-	-	1	-	-	-
Information Technology Bonds	-	-	-	-	281	-	-	-
Capital Projects								
Long Range Building	2	-	27	-	-	-	-	-
Enterprise								
Liquor Stores	1	-	-	-	-	-	-	-
State Lottery	-	-	5	-	-	-	-	-
Prison Industries	11	-	-	-	-	-	-	-
Flex Spending Admin.	78	-	-	-	-	-	-	-
Internal Service								
ISD	653	-	18	-	-	-	-	-
MUS Group Insurance	809	-	9	-	-	-	-	-
Admin. Insurance	3	-	4	-	-	-	-	-
FWP Equipment	1	-	-	-	-	-	-	-
Motor Pool	1	-	-	-	-	-	-	-
Administration Supply	20	-	1	-	-	-	-	-
Publications & Graphics	16	-	-	-	-	-	-	-
Labor Central Services	6	-	2	-	-	-	-	-
Commerce Central Services	14	-	3	-	-	-	-	-
DEQ Indirect Cost Pool	3	-	1	-	-	-	-	-
Mail & Messenger	8	-	-	-	-	-	-	-
Warrant Processing	15	-	-	-	-	-	-	-
Investment Division	74	-	-	-	-	-	-	-
Justice Legal	8	-	-	-	-	-	-	-
Personnel Training	1	-	-	-	-	-	-	-
Records Management	6	-	-	-	-	-	-	-
Debt Collection/CSC	3	-	-	-	-	-	-	-
Expendable Trusts								
Research & Commercialization	-	-	393	-	-	-	-	-
Nonexpendable Trusts								
Coal Tax Trust	300	-	-	-	-	-	-	-
Land Grants	-	-	382	-	-	-	2,607	-
Agency								
Child Support Collections	9	-	-	-	-	-	-	-
Uncleared Collections	561	-	530	-	-	-	-	-
Debt Collection/CSC	-	-	26	-	-	-	-	-
Component Units								
Enterprise Funds								
Housing Authority	-	56	-	-	-	-	-	-
Health Facilities Authority	-	6	-	-	-	-	-	-
State Compensation Ins. – New	-	1,102	-	7	-	-	-	-
State Compensation Ins. – Old	-	4	-	-	-	-	-	-
Expendable Trusts								
Employees Deferred Comp.	-	4	-	455	-	-	-	-
Pension Trusts								
Teachers Retirement	-	60	-	128	-	-	-	-
PERS	-	108	-	59	-	-	-	-
Municipal Police	-	-	-	6,148	-	-	-	-
Firefighters Unified	-	-	-	5,369	-	-	-	-
Highway Patrol	-	-	-	87	-	-	-	-
Higher Education								
Current Funds								
General Operating	-	29	-	433	-	-	-	129,615
Designated	-	902	-	663	-	-	-	3,004
Auxiliary	-	13	-	53	-	-	-	271
Restricted	-	14	-	1,874	-	-	-	1,680

Between Primary Govt. and Component Units	Due From Comp. Units	Due To Primary Govt.	Due To Comp. Units	Due From Primary Govt.	Transfer From Comp. Units	Transfer To Primary Govt.	Transfer To Comp. Units	Transfer From Primary Govt.
<u>Fiduciary</u>								
Student Loans	-	3	-	1	-	-	-	-
Agency	-	1,083	-	773	-	-	-	-
<u>Plant</u>								
Unexpended	-	115	-	146	-	294	-	1,175
Renewal and Replacement	-	3	-	13	-	-	-	566
Retirement of Debt	-	-	-	-	-	103	-	1,189
Total	\$3,502	\$3,502	\$16,209	\$16,209	\$397	\$397	\$137,500	\$137,500

14. FUND DEFICITS

The following funds have a deficit fund balance/retained earnings found on the operating statements for June 30, 2001, (in thousands):

Primary Government

Enterprise Fund

	Deficit
West Yellowstone Airport	\$ (540)
Department of Agriculture	(178)
Subsequent Injury	(614)
Liquor Stores	(212)
Judiciary Law Library	(7)

Internal Service Fund

Records Management	(63)
Payroll Processing	(85)
Warrant Processing	(36)
Investment Division	(66)
Administration Insurance	(24,551)
Justice - Legal	(26)
Administration - Legal	(30)
Local Government Admin	(43)
Total Fund Deficits - Primary Government	<u>\$ (26,451)</u>

Component Units

Proprietary Fund Type

State Comp. Ins. (Old Fund)	\$(131,686)
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Higher Education Funds

General Operating Subfund – Unreserved	<u>\$ (26,942)</u>
Total Fund Deficits - Component Units	<u><u>\$(158,628)</u></u>

The retained earnings deficit in the Administration Insurance Fund, Subsequent Injury and the State Compensation Insurance-Old Fund are due to recording the expense for estimated claims including claims incurred but not reported. Refer to Note 9 for further discussion of these funds. The deficit fund balance in the General Operating Subfund is due to the expense associated with the recording of compensated absences.

15. RESERVED FUND BALANCES FOR TRUSTS

The Special Revenue fund balance reserved for trusts is for the Department of Environmental Quality federal Office of Surface Mining Trust Fund of \$6,551,852.

The Nonexpendable Coal Tax Trust Fund reserved for trust principal is comprised of the following: Permanent Coal Tax Trust \$567,943,708; Treasure State Endowment Fund \$91,496,098; and the School Bond Contingency Loan Fund \$2,177,964. All other nonexpendable funds reserved for trust principal total \$563,675,511.

16. SEGMENT INFORMATION

Selected financial information concerning all enterprise operations for the fiscal year ended June 30, 2001, is as follows (in thousands):

	Economic Development Bonds	Liquor Warehouse	Hail Insurance	State Lottery	Other* Enterprise	Total Enterprise
Operating Revenues:						
Charges for Services	\$ 11	\$ 40,798	\$ -	\$30,422	\$ 9,211	\$ 80,442
Investment Earnings	1,120	-	376	275	228	1,999
Financing Income	3,683	-	-	-	-	3,683
Contributions/Premiums	-	-	2,760	-	6,318	9,078
Grants/Contracts/Donations	-	3	-	-	-	3
Taxes	-	12,151	-	-	-	12,151
Other Revenues	-	80	25	1	170	276
Operating Expenses:						
Depreciation	1	76	-	620	242	939
Amortization	-	1	-	164	333	498
Other	4,340	35,195	3,190	23,766	16,047	82,538
Operating Income (Loss)	473	17,760	(29)	6,148	(695)	23,657
Nonoperating Rev. (Exp.)	-	(2)	-	(3)	461	456
Oper. Trans. In (Out)	-	(19,827)	(6)	(6,145)	44	(25,934)
Net Income (Loss)	\$ 473	\$ (2,069)	\$ (35)	\$ -	\$ (188)	\$ (1,821)
Current Assets	\$13,796	\$ 11,145	\$ 8,035	\$ 3,280	\$12,002	\$ 48,258
Current Liabilities	(1,370)	(10,299)	(1,058)	(6,007)	(1,050)	(19,784)
Net Working Capital	\$12,426	\$ 846	\$ 6,977	\$(2,727)	\$10,952	\$ 28,474
Total Assets	\$77,973	\$ 12,097	\$ 8,035	\$ 9,585	\$18,512	\$126,202
Total Liabilities	73,460	10,394	1,598	9,347	4,710	99,509
Fund Equity	\$ 4,513	\$ 1,703	\$ 6,437	\$ 238	\$13,802	\$ 26,693
Long-Term Obligations	\$72,090	\$ 95	\$ 540	\$ 3,340	\$ 3,660	\$ 79,725
Current Capital Contribution	\$ -	\$ 158	\$ -	\$ -	\$ 30	\$ 188
Acquisition of Fixed Assets	\$ -	\$ 99	\$ -	\$ 630	\$ 1,327	\$ 2,056
Disposal of Fixed Assets	\$ -	\$ 8	\$ -	\$ 108	\$ 434	\$ 550

1. The Economic Development Bond Program, administered by the Board of Investments, assists Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.
2. The Liquor Division of the Department of Revenue administers the State liquor operations (Liquor Warehouse). This fund accounts for liquor licensing activities and the sale and distribution of alcoholic beverages.
3. The Hail Insurance Fund provides benefit payments to producers for crop acreage insured and accounts for premium assessments paid (See Note 9).
4. The State Lottery accounts for the operations of Montana's lottery which began in June 1987. Included in Other Assets, as presented on the Balance Sheet, is \$2,265,495 which is not a current asset.

* Other Enterprise is composed of the following funds (listed by administering agency):

Department of Agriculture
Department of Agriculture

Secretary of State
Business Services

Department of Corrections
Prison Ranch Industries
Womens Prison Industries
Swan River Vocational Training

Department of Commerce
Local Government Audits

Montana Historical Society
Historical Society Publications

Judiciary
Judiciary Law Library

Department of Transportation
West Yellowstone Airport

**Commissioner of Higher
Education**
Flexible Spending

**Department of Labor
and Industry**

Montana Career Info. System
Subsequent Injury
Uninsured Employers

Department of Administration

Surplus Property
Flexible Spending
Deferred Compensation Admin.

17. CONTRIBUTED CAPITAL

During fiscal year 2001, contributed capital changed by the following amounts (in thousands):

	<u>Primary Government</u>		<u>Component Units</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Proprietary Fund Type</u>
Beginning Balance - July 1, 2000	\$4,928	\$12,245	\$154,468
Additions:			
Contributed Capital Transfers-in	7,619	7,291	-
Deletions:			
Contributed Capital Transfers-out	(7,432)	(142)	-
Ending Balance - June 30, 2001	\$5,115	\$19,394	\$154,468

18. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation. The Board of Regents and MHESAC have four common board members. Approximately 53.38% of the Regents' outstanding loan volume, or \$374,141,519 is held by MHESAC. During fiscal year 2000 MHESAC undertook a reorganization under which its operating staff and assets were transferred to the Student Assistance Foundation of Montana (SAF) and MHESAC entered into agreements with SAF to provide management and loan servicing to MHESAC. The Board of Regents and SAF have four common board members. Lewis & Clark County owns the building that houses the staff of the Board of Regents and the Office of the Commissioner of Higher Education (OCHE). Upon satisfaction of the financing obligations, SAF has the option to purchase the building. OCHE paid SAF during fiscal year 2001 for its share of various costs such as personnel costs for employees of SAF who performed services that were of direct benefit to the State; equipment leases, computer maintenance costs, utilities, and other shared operating expenses. The total amount of these expenses for fiscal year 2001 amounted to \$449,486. SAF employees are allowed to participate in the University System group insurance plan and SAF also pays OCHE reimbursement for services such as telephones, postage, and computer services. During fiscal year 2001, SAF paid OCHE a total of \$470,938.

There is a foundation affiliated with each university and college unit that solicits contributions and manages those funds for the benefit of that unit. Although each foundation is a separate legal entity, each unit exercises significant influence over its affiliated foundation. The units generally provide the foundations with office space, some staff and related office expenses and an annually contracted fee. The units paid their foundations approximately \$1,393,454 in fiscal year 2001. In return the universities received from their foundations approximately \$14,190,070 during fiscal year 2001 for scholarships and academic/institutional support. In addition to support from their affiliated foundations, the University of Montana-Missoula, University of Montana-Dillon, Montana State University-Billings and Montana State University-Bozeman received a total of \$3,459,801 from their related athletic associations/booster organizations and affiliated museums and public broadcasting radio stations.

The Department of Administration, Personnel Division, has a staff member that serves as Director of the Montana Association of Health Care Purchasers for no remuneration. The Department pays this Association \$1,000 per year to maintain its membership. This staff member also serves as Director of Community Health Options which is a health purchasing cooperative whose purpose is to consolidate demand for health coverage to encourage more cost-effective health plans, negotiate more favorable rates and create economies of scale by combining administration of health care plans.

19. CONTINGENCIES

A. Litigation - The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

The State of Montana is involved in a lawsuit with the potential for substantial recovery of monetary relief against private parties. State of Montana v. Atlantic Richfield Co., No CV-83-317-H-PHG(D.Mont.), is a case where natural resource damage claims have been asserted under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 with respect to environmental injury to Clark Fork River Basin. The State and Atlantic Richfield settled a portion of the case for \$215 million, but unresolved is a claim by the State for \$180 million. Atlantic Richfield filed a counterclaim against the State, the amount of which is unspecified and therefore could reduce or exceed the State's remaining claim. The State believes it has meritorious defenses to the counterclaim. Any recovery in this litigation must be used under federal law to further reclamation and recovery efforts or to offset attorney fees and assessment costs incurred by the State.

In United States ex rel. Matthew J. Sisler vs. State of Montana et al., filed in the United States District Court, State of Montana, Missoula Division, Cause No. CV 99-125-M-DWM, plaintiffs allege that Department of Public Health and Human Services and its agent Healthy Mothers, Healthy Babies, a nonprofit corporation, fraudulently submitted monies to the federal government which were claimed as donations and as such eligible for federal matching funds. The complaint alleges that approximately \$1 million was paid to the State of Montana during the time period at issue. It is further alleged that the federal government is entitled to treble damages plus civil penalties of \$5,000 to \$10,000 for each violation. The State believes the amount of loss in monetary terms may be closer to \$300,000 rather than the higher claim asserted in the complaint.

In Travis D., et al. v. Eastmont Human Services Center, et al., filed in the United States District Court, District of Montana, Helena Division, Civil Action No. CV 96-63-H-CCL, plaintiffs allege that the State of Montana, in its operation of the Eastmont Human Services Center and the Montana Development Center, is not placing residents in the "least restrictive environment." In addition, plaintiffs' second amended complaint, dated November 2, 2001, expanded their claims to demand services for those Medicaid eligible recipients who are "at risk" of being institutionalized or on a "waiting list" for services but cannot be served due to limited funding provided by the Montana legislature for the "home and community services program" for the developmentally disabled. Their claims are based upon alleged violations of the Americans with Disabilities Act, Title XIX of the Social Security Act (Medicaid) and a constitutional equal protection and due process. The case is currently awaiting the filing of summary judgment motions and briefs by the parties, which will be completed by January 18, 2002. The judge will make a ruling on those motions for summary judgment submitted by each party. The ruling, however, may not completely decide the case. In that event it will be set for trial at a later date. The State estimates the annual loss in monetary terms (based upon the amended complaint) at \$65 million, of which \$33.215 million would be Federal funds and \$31.785 million would be General Funds.

B. Federal Contingencies:

Federal Financial Assistance - The State receives federal financial assistance for specified purposes which are subject to review and audit in accordance with the Single Audit Act Amendments of 1996. Any disallowances resulting from these audits would become the liability of the State. There are no disallowances reported as of June 30, 2001.

USDA Commodities - In fiscal year 2001, the State distributed \$6,454,990 in commodities. The value of the commodities stored in the State's warehouses was \$2,191,527 at June 30, 2001, for which the State is liable in the event of loss.

C. Miscellaneous Contingencies:

Commitment Fees - The Board of Investments (BOI) and the Montana Health Facility Authority (MHFA) have entered into a capital reserve account agreement for certain bond issues. In accordance with the agreement, the BOI irrevocably committed to lend the MHFA funds sufficient to ensure timely payments of principal and interest on the bonds. If necessary, the loans will be made by the BOI from the Coal Severance Tax Permanent Trust Fund. The total amount of these bonds outstanding as of June 30, 2001 was \$33,158,151.

The BOI has issued INTERCAP bonds backed by commitments from the Coal Severance Tax Permanent Trust Fund. The total amount of these bonds outstanding as of June 30, 2001 was \$57,680,000.

Gain Contingencies - Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2001, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	Special Revenue	Debt Service	Nonexpendable Trust
Corporation	\$3,903	\$ -	\$-	\$ -
Coal Severance	-	-	-	-
Metal Mines	-	-	-	-
Oil & Gas	1,135	68	-	-
Resource Indemnity	-	61	-	52
Total	\$5,038	\$129	\$-	\$52

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed to the General Fund.

Loss Contingencies - Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2001. As of June 30, 2001, \$5,248,987 of General Fund corporation tax refunds; \$76,255 of General Fund metal mines tax refunds; and \$55,219 of special revenue metal mines tax refunds were outstanding.

20. SUBSEQUENT EVENTS

On July 27, 2001, the Department of Natural Resources and Conservation issued \$12,155,000 of Renewable Resource Refunding Bonds, Series C. Proceeds were received on or about August 9, 2001.

The Department of Health and Human Services overdrew its Child Support Enforcement federal grant by \$1,780,051 for fiscal years 2000 and 2001. Future grant draws for the next four quarters will be adjusted for this amount.

On July 1, 2001, the Housing Authority Board issued \$71,000,000 of Series 2001A Bonds to refund certain of the Board's single family mortgage revenue bonds.